

Britain and Canada in the 1990s

**Edited by
D. K. Adams**



**The Institute for Research on Public Policy
L'Institut de recherches politiques**

BRITAIN AND CANADA IN THE 1990S



Britain and Canada in the 1990s

Proceedings of a UK/Canada Colloquium
Leeds Castle, Kent
England

Edited by

D.K. Adams

The Institute for Research on Public Policy
Ottawa · Halifax · Victoria

Dartmouth

Aldershot · Brookfield USA · Hong Kong · Singapore · Sydney

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Published by
Dartmouth Publishing Company Limited
Gower House
Croft Road
Aldershot
Hants GU11 3HR
England

ISBN 1-85521-274-9

The Institute for Research on Public Policy
P.O. Box 3670 South
Halifax
Nova Scotia
Canada
B3J 3K6

ISBN 0-88645-139-6

A CIP catalogue record for this book is available from the British Library and the US Library of Congress

Printed in Great Britain by
Billing & Sons Ltd, Worcester

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Preface and Acknowledgements

Concerned participants in the bilateral relationship between Canada and the United Kingdom met at Cumberland Lodge in Windsor Great Park in 1971, at the University of Leeds in 1979, at Dalhousie University in 1984 and again at the University of Leeds the following year. More formal establishment of what are now known as the Canada-UK Colloquia came in 1986 with the support of Baroness Young, the then Minister of State at the Foreign and Commonwealth Office, and the Hon R Roy McMurtry, then Canadian High Commissioner in London. Both the FCO and the Department of External Affairs in Ottawa saw the desirability of a regular exchange of views on issues of public policy common to the two countries. A British Committee was established, with Dr Margaret Storrie as its first convenor, and in Canada the Institute for Research on Public Policy in Ottawa was appointed the organising agent. The Institute has shared responsibility for all recent Colloquia through its vice president, Peter C Dobell. Financial support has been provided by the Foreign and Commonwealth Office and by the Department of External Affairs. Particular meetings of the Colloquia have also attracted private sponsorship. In addition FCO has provided considerable administrative assistance via the North America and Research Departments.

Following its more formal establishment in 1986 the Colloquia met in Ottawa and at Meech Lake in October that year on the subject of 'The Future of Social Welfare Systems in Canada and the United Kingdom'. 'Privatisation and Deregulation in Canada and Britain' was the theme of the Gleneagles meeting in 1987, and in Toronto in 1988 discussions focused on 'Post-Secondary Education: Preparation for Work'. The decision had been taken earlier that, dating from the Dalhousie colloquium in 1984, the quinquennial meeting would be devoted to general issues in the bilateral relationship. At Leeds Castle, Kent, in 1989, discussion was therefore directed towards 'Britain and Canada in the 1990s'. This present volume is the report of the proceedings at Leeds Castle.

Acknowledgements

The success of the Colloquium was due to the active participation of all members. Discussion took place under Chatham House rules, and no remarks are attributed to individuals beyond the formal presentations witnessed by the papers here published, and in the synopses of the short oral introductions to the written contributions.

Financial assistance was received from Lloyds Bank Plc, whose generous support made it possible to meet in the excellent environment of Leeds Castle. In addition to grants from the Foreign and Commonwealth Office and the Department of External Affairs the Colloquia is deeply grateful to its private sector sponsor.

Particular acknowledgment is also made to John Roper of the Royal Institute of International Affairs. Not only did he preside over the debates most ably but also, as a member of the British Committee, worked closely with Dr Denis Balsom, its chair, and with Peter Dobell of IRPP in planning the programme. In keeping with the ethos of the Canada-UK Colloquia both delegations included officials, parliamentarians, journalists, academics and business leaders distinguished in their respective communities.

In the preparation of this volume Sandra Lockey and Amanda Gautby, secretaries in the Department of American Studies at Keele University, transferred texts that came in sundry forms onto computer discs and assisted in the preparation of camera-ready copy. Without their skills, and smiles, the project would not have been completed.

D K Adams
Keele University
June 1991

Members of the Leeds Castle Colloquium

British Delegation:

Sir Derek Day, former British High Commissioner to Canada; President, British Committee, Canada-UK Colloquia.

Denis Balsom, Department of Political Science, University College of Wales, Aberystwyth; Chairman, British Committee, Canada-UK Colloquia.

Professor David Adams, Director of David Bruce Centre for American Studies, University of Keele; Vice Chairman, British Committee, Canada-UK Colloquia.

Mr Geoffrey F. Bacon, Executive Director, Canada-UK Chamber of Commerce; Treasurer, British Committee, Canada-UK Colloquia.

Mr Adrian Beamish, CMG, Assistant Under-Secretary of State, Foreign and Commonwealth Office.

Mr Richard Bone, Head of Library and Records Dept, Foreign and Commonwealth Office.

Mr David Burns, Head of North America Dept, Foreign and Commonwealth Office.

Mr Ian Davidson, Financial Times.

Rt Hon Edmund Dell, Former Secretary of State for Trade.

Mr David Everett, MP, Conservative Member of Parliament for Erith and Crayford.

Sir Leslie Fielding, Vice Chancellor, Sussex University.

Mr Richard Gordon, Director of Public Relations, Shorts/Bombardier.

Mr John Hale, Director, The Pearson Group plc; former Executive Vice-President, Alcan.

Mr Patrick Holdich, North American Research Desk Officer, Research Dept, Foreign and Commonwealth Office.

Dr Peter Lyon, Secretary, Institute for Commonwealth Studies, University of London.
Mr Andrew Milligan, Economic Adviser, Lloyds Bank Plc.
Mr Anthony Nelson, MP, Chairman, British Canadian Parliamentary Group.
Mr Peter Newton, Deputy High Commissioner-designate, British High Commission, Ottawa; former Consul General, Montreal.
Mr John Roper, Royal Institute for International Affairs.
Mr Timothy Sainsbury, MP, Parliamentary Under-Secretary of State for Foreign and Commonwealth Affairs.
Dr Margaret Sharp, Science Policy Research Unit, University of Sussex.
Mr Phil Sinkinson, Canada Desk Officer, Foreign and Commonwealth Office.
Mr Geoffrey Smith, former Political Editor of The Times.
Mr Peter Unwin, Deputy Secretary-General (Economic), Commonwealth Secretariat.
Sir Alan Urwick, former British High Commissioner to Canada now Serjeant at Arms, Palace of Westminster.
Professor Donald Cameron Watt, Stevenson Professor of International History, London School of Economics.

Canadian Delegation:

The Hon. Donald S. Macdonald PC, High Commissioner for Canada
Mrs Adrian Macdonald
The Hon Lloyd Axworthy PC, MP, former Minister of Transport.
Mr Ron J. L. Berlet, Minister, Economic and Commercial Affairs, Canadian High Commission.
Mr Fred Bild, Assistant Deputy Minister, Political and International Security Affairs, Department of External Affairs, Ottawa.
Professor Robert Boardman, Professor of Political Science, Centre for Foreign Policy Studies, Dalhousie University.
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Mr Charles Court, Deputy Director, Western Europe Relations Division, Department of External Affairs, Ottawa.
Mr Peter C. Dobell, Vice-President and Secretary-Treasurer, Institute for Research on Public Policy, Ottawa.
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Senator the Hon Allan MacEachen, former Secretary of State for External Affairs.
Mr Len Mader, Counsellor, Public Affairs, Canadian High Commission.
Professor Paul Marantz, Associate Professor of Political Science, University of British Columbia.

Professor John Meisel, Sir Edward Peacock Professor of Political Science, Queen's University: former Chairman of the Canadian Radio-Television and Telecommunications Commission.

Mr Norman Riddell, Sous Ministre, Ministère des Communautés Culturelles et de l'Immigration du Québec.

Mr Jeffrey Simpson, Political Columnist, Toronto Globe & Mail.

Mr Ian Stewart, former Deputy Minister at the Department of Finance, Ottawa.

Mr Bernard Wood, Chief Executive Officer of the Canadian Institute of International Peace and Security.

Mr Gerald Wright, Senior Policy Adviser, Minister of State, Small Businesses and Tourism, former Vice-President, Canadian Donner Foundation.



PART I



Overview

D.K. Adams

The theme of the Colloquium, the future of UK Canadian relations, was explored in five sessions, each of the first four containing two papers, one from each side of the Atlantic Ocean offering different perspectives on the bilateral relationship.

Session I set the scene in its historic context. Peter Lyon for the UK chartered the peaks and troughs of British Canadian relations since the Second World War through seven phases of development. These, in summary, were the period of the wartime alliance; the years from 1945 and 1950 when the two countries were with others co-architects of the post-war international order; the Cold War partnership from 1950 to 1952 when power ratios were changing as Canada became a rising middle power side by side with Britain's relative decline; the re-appraisal years from 1957 to 1963; the Indian Summer of 1963-1968, the Trudeau years of international change and finally the period of Progressive Conservative rule in Canada which saw new conjunctions and disjunctions in a multilateral context. In introducing his paper Lyon emphasised that he rejected linear history of either inevitable progress or inevitable decline, and that his paper reflected Canadian sources and events partly because Canadian policy has tended to be more self-defining and self-declamatory than that of the UK, and because Canadian commentaries have been more explicit and more sophisticated than those originating in the UK. He analysed what he called 'thick' and 'thin' international relationships emphasising that the Canada-UK link has been 'thick', rich and diverse, made up of many strands, moulded by migration patterns, academic exchanges, cultural ties less and less originating in London and Ottawa - less governmental and more people-generated. His remarks concluded with a sketch of present problems and portents.

Robert Boardman of Dalhousie University introduced his paper with a disarming story of signs in a hardware store in Nova Scotia addressing hunting licences: Moose

\$40 Deer \$20 Small Game \$15. Senior citizens free. He questioned whether good relations are free, and emphasised the inevitability of tensions, irritants and pin-pricks!

Suez, the problems of South Africa, burden sharing within Nato, trade barriers, differential student fees and other issues had caused disturbances, but there had fundamentally been a good relationship since 1945. Since 1969 however it had perhaps been dwindling. By 1949 some Canadian observers were already saying that Canada was being forced to choose between London and Washington, and how to make the choice remains the question now. 1949 also saw the beginning of constitutional changes in the bilateral relationship with the UK. Since then Canada has taken the US connection further with the Trade Agreement of 1989, and the UK has been moving closer towards the European Community and the single market of 1992.

Boardman questioned whether there is still a mutually beneficial bilateral relationship, and found it increasingly difficult to locate either active pro-British opinion in Canada or a pro-Canada constituency in Britain. He pointed to the lack of interest in Canada by the British media for whom Canada, unlike the US, is not a point of reference. The British have difficulty in recognising a federal state as decentralised as Canada. He suggested that Europe may, in the 1990s, become a more radical vehicle for improvement of the Canada-UK relationship. There had been a tentative re-discovery of each other in the 1980s, but one of the questions for the 1990s is the identity of Britain in Europe. The direct relationship may be more important than via the Commonwealth, for each country has common problems; and although particular positions may differ there are underlying areas of commonality.

In the discussion that followed opinion divided on a number of issues, particularly perhaps on the role of the Commonwealth. It was strongly agreed that both Britain and Canada benefit from membership, particularly with regard to the European Community. Others stressed the tensions between the 'old' and the 'new' Commonwealth, and the complications created both with the EC and the US. It was strongly emphasised that Britain is no longer able to solve UK-Canadian differences over fisheries, exports and newsprint, etc, except in the context of the EC. The EC and Canada-US each represent forms of regional association. How then to re-energise the bilateral relationship in this wider context?

How to reconcile political regionalism with industrial globalism? Perhaps a link between the European and the North American blocs can be provided by Canada. All discussants seemed to agree that we are passing through a transition towards a redefined international order in which concepts of national identity, influenced also by multi-ethnicity within the nation state, become less clear; but the Commonwealth does break down the cocoon of regionalism and that therefore there remains a wider structure for the re-vitalisation of the bi-lateral relationship.

The second session of the Colloquium was devoted to the changing political agenda. Professor John Meisel noted changing generational attitudes: his students finding concern about Canada-UK relations rather quaint and anachronistic with the intrusion of more challenging and interesting matters such as the changing processes in Eastern Europe, environmental concerns, the information revolution etc. But he continued to believe that the relationship offers positive possibilities in the context of increasing Canadian dependence on the US and Britain's movement towards Europe. He summarised the concerns of his paper, and the factors that both inhibit and encourage. Demographic changes in Canada, resulting in increased multiculturalism, diminish pro-British sentiment; internal constitutional problems pre-occupy attention,

and in many ways Canada is becoming more Americanized. Encouraging factors reside in the decline of one party dominance in Canada; in the growth of 'competitive federalism' which has seen the growth of international activity by provincial governments; in the initiatives taken by the private sector of industry and commerce and cultural associations, and in a lingering shared value system. In a number of areas Canada could benefit from the British experience and the UK, in its changed position of power, could find useful association with Canada.

Geoffrey Smith, in extended remarks that are not reprinted here as a formal paper, gave a masterly survey of the British political scene over recent years. He stressed that British politics have invariably been more ideological than Canadian, and particularly so in 1980s. He emphasised the difference within the UK between political regionalism and cultural and linguistic nationalism, saw a reversion to two party politics in a battle over the economy but with both major parties subscribing to the breakdown of the post-1945 consensus that problems were for Government alone to solve and placing increased emphasis on partnership between the private and public sectors.

In the discussion that followed, there was lively debate about the future of Canada in its present form and about a possible reconfiguration of the North American continent. The role of Quebec was considered at length and there was speculation about the balance of power moving towards the heartland and to the Pacific West. Multiculturalism in Canada was again voiced, and the openness of Canada to immigrants was emphasised. It was suggested that the north/south divide in the UK was reflected in Canada, between the metropolitan cities and the agricultural and primary resource producing areas. Should the UK adopt federal forms? But what does the Canadian experience suggest about the future of a federal Europe? How can the alienation of peoples from governments be prevented? One discussant suggested vigorously that Britain does have a federal structure, but that it is administrative, and not formally electoral.

There was considerable disagreement about student awareness of the other country. Relative prosperity with Britain has led to both continental and global travel, including to the US, much less to Canada, but it was also suggested that Canada is drifting away from Britain more than Britain is moving away from awareness of Canada. Concepts of alienation were discussed, relating to both countries, but again the theme emerged of Britain's necessary preoccupation with Europe as 1992 approaches. A positive suggestion that emerged was increased Canadian-UK co-operation and collaboration on issues relating to the global environment; this might compensate for the disappointments of the contractual link between Canada and the European Community.

Session III was devoted to the global perspectives of East/West and West/West. Paul Marantz saw history on fast forward as the Cold War died. Although East/West rivalry will remain, the parameters have changed. Posing the question of whether Canada's policies will harmonise with those of her allies, he suggested an affirmative answer, despite the variety of pressures such as military budget reductions, force reductions in Europe, differing national trading relations with the USSR. On global issues such as the Arctic and Antarctica he saw no divergence. Ian Davidson generally agreed with Marantz and stressed the grave implications for NATO of the end of the Cold War.

Discussion focused on analysing what is happening in the East and on the Western response. The factors behind the Soviet revolution were seen to lie in a set of urgent

domestic priorities consequent upon the failure of the Soviet system to deliver economic security to its citizens. This failure has led to movement towards a capitalist culture, with inevitable political upheaval. The prospect of chaos was envisaged given the difficulty of controlling ethnic groups and the problem of nationalities in this stage of the transformation of the Soviet empire. Whether or not Gorbachev's policies are irreversible was believed to be an open question. Because events are unpredictable, responses are equally so. The general response must therefore be organic rather than prescriptive. What to do about Eastern Europe preoccupied the Colloquium for a considerable time. A particular problem was seen to be the lack of homogeneity of Eastern Europe; and the essence of the European Community, its agricultural support system, was believed to be unsustainable if extended to the East. It was therefore suggested that the EC could at present only offer short-term aid packages to the East, supplementing food supplies whilst waiting on events.

Unwieldy bureaucracies will need to change, technology transfer should be increased, encouragement of private sector investment and management support would help the East. But the West should also accelerate the process of European integration and the move towards monetary union. It was suggested that the idea of a new Marshall type plan was not appropriate and could not be delivered. It was also unrealistic because such a scheme pre-supposed the ability of the Eastern European nations to work together, which was believed to be unrealistic. As for private investment, reasonable return had to be expected for reasonable result. Most speakers reinforced the note of caution stressing the absence of an entrepreneurial class in Eastern Europe. It was emphasised that the West does not control the situation and that no-one does. The situation should be approached piece-meal, perhaps some form of association with the EC could be envisaged. Meantime don't arrest the forward momentum to 1992.

Discussion then reverted to the future role of NATO. There seemed to be a general measure of agreement on the inevitability of some degree of disarmament; and that the US for budgetary reasons might seek limited disengagement from Europe, but could Europe be left with the sole responsibility for European security? Canada, a participant in both world wars, should be fully drawn in to the negotiating process. The session concluded with confirmation of the need to emphasise uncertainty, but also with counter assertions that this should not be an excuse for inaction. A community of interest between East and West and West and West, exists and should be re-affirmed.

Introducing the session on North/South issues Bernard Wood claimed that to look at the North/South relationships of Britain and Canada on a comparative basis does make sense. Although Britain has always been closely linked to the Third World through the Empire Canada, which in 1945 had little experience, had since developed its own relationships. Whilst Britain has retained a lingering ambivalence towards former colonies Canada had developed general sympathy for emerging countries, has given strong support in the United Nations and on a per capita basis is providing more aid than Britain.

His paper traced the evolution of the North/South dialogue. This only gained impetus in the 1970s with the oil crisis, and then diminished. He saw the negotiations on the law of the sea as a parallel development that has become one of the most important sectors of Canadian diplomacy. The South's fundamental lack of bargaining power has witnessed the growth of protectionism in the North. International debts complicate the picture, as does the diminution and practical disappearance of the

ability of developing nations to play off East and West in the context of a massive new competition for limited resources. Although finding the general outlook ominous, Wood saw substantial idealism remaining in Canadian foreign policy, and a critical need to re-focus on the Third World, particularly with regard to problems arising from population explosion, environmental degradation, the drug culture and ethnic conflict.

Peter Unwin discussed the reasons why the North/South relationships had become unfashionable in the North. He found three main reasons: the excessive enthusiasm of some advocates of the dialogue, the domination of the East/West developments and the East's failure to sustain competition with the West, and too much emphasis on the problems of South Africa. In an increasingly organic global environment the developed world is no longer bi-polar and nor are North/South relationships. The rise of Asian industrial countries to world importance, and the development of India as a regional industrial power emphasise the beginning of a new phase. Within this general framework, however, the Commonwealth continues to provide a North/South dialogue that works.

Questions of multiculturalism and ethnicity dominated the early discussion, with the Colloquium being vigorously reminded that within a decade 90 per cent of the world's population will be non-white, and that there remains too much focus on the minority. Population migration should be central to foreign policy, and with Britain consumed in the ongoing debates about Europe, the Commonwealth could be the vehicle through which Canada will define its foreign policy in this regard. The two countries could split on the issue, which went well beyond the economic.

A dissenting voice expressed frustration at much of what was called wishful thinking on the matter of aid, given the underspending on existing commitments and with the effectiveness of programmes reduced by bureaucracy and corrupt practice. Therefore, it was suggested, the climate of public opinion was unlikely to change. Other speakers stressed the need for renewed energy in the North/South dialogue, but believed that the limitation on the Commonwealth as a motor force was the absence of the United States, Japan and Western European nations, without whom issues could not be resolved. The UN also has limited potential and private investment is inhibited by the defaulting on debts. It was strongly suggested that the North should open its markets to the developing world, but that protectionist attitudes inhibit such freedom of trade. An interesting discussion ensued on the importance of intermediate technology and technology transfer, which had not been a major theme of the formal presentations, but no firm conclusions were reached.

It was however perhaps generally agreed that for Britain it is not a choice between the European Community and the Commonwealth, for the latter provides an essential bridge between North and South. The bilateral relationship of Canada and the UK has to be seen in the context of wider associations, and in the different roles each has the ability to play in the several groupings of nations. To the extent that the Commonwealth has become a forum for criticism of Britain by its former colonies, Canada is a positive force for reconciliation of differences and a useful bridge between the North and South.

Opening the session on changing economic agendas, Claude Forget went beyond his paper's preoccupations with the free trade agreement between Canada and the US and discussed the dominant assumptions of the post-1945 world based on a liberal, multi-lateral trade environment stemming from Bretton Woods and GATT. A long period of relatively open trade relations among developed nations was perhaps ending.

The accumulation of foreign debt challenged established assumptions, and suggested the necessity of trade surpluses to service those debts.

In a world in which developed countries moved towards protectionism, Canada might find it difficult to resist pressures to turn the FTA into a customs union. The economic and demographic realities of the North American continent are such that the smaller parties want to exist in a wider context. Were the US to falter in its commitment to a liberal trade environment who could take up a burden? Within the EC Britain could establish a constructive position, as both an insular and international nation more able than most member states to resist the pressures of continentalism. Here OECD could be a useful mechanism. Were GATT to founder because of a chasm between the developed and less developed countries it is doubtful that the Commonwealth as such could fill the gap. Federalism is not necessarily a weak form of organisation. It may be necessary but it can work, in both Canada and the EC. In the process of harmonization of differences openness can be developed. In Canada, as in Europe, culture goes beyond language.

Sir Leslie Fielding usefully stressed the evolving situation in Europe and its implications for the UK. Increasingly Britain's trade was moving towards Europe, and a sense of European identity developing. Canada must regard these developments with sensitivity for all aspects of British life, and the way its people think, are being transformed as 1992 approaches. Crucial, however, is that the internal market does not turn in on itself, and here the UK's bilateral relationship with Canada, and the wider links through the Commonwealth, are of importance. The discussion that followed embraced widely differing opinions on the implications of European developments, with significant emphasis on the difficulties confronting the establishment of the single market and the development of its external relations.

Session IV continued with a presentation by Margaret Sharp on technological change and development that brought together earlier strands of discussion. She stressed global and regional trends in technology, and in the world context the danger of mercantilism. She discussed the history of technological change, and its social impact, analysed the implications of the oil crisis of the 1970s and the opportunities provided for new entrants by the development of micro-electronics. Uncertainties in economic status however breeds uncertainty and destroys confidence, and older industrial societies need to confront new challenges. She suggested that the new world order needs to be based on collaboration rather than competition. Although there has been a period of Euro-pessimism, the European performance had not been that bad. Some R & D levels, as in Germany and Sweden, had been competitive with the Japanese, and in industries such as pharmaceuticals and aerospace Europe had done well. In information technology governments had poured money into national enterprises, and perhaps this had inhibited concentration, so leading to relative weakness. Concentration was necessary for global competition, but Fortress Europe was the wrong way to go. Europe whilst encouraging concentration, must maintain an open stance, and Canada should likewise use its influence with the US.

Ian Stewart stressed that the purpose of economics is the welfare of the people and endeavoured to put the discussion towards consideration of the public good. He considered the pressures exerted both by the FTA and the EC on social as well as economic and fiscal structures, but the Colloquium declined his invitation. Discussions reverted to organisational features of both the EC and the Commonwealth, of the problems of agriculture, trade restrictions and government. Rather lively debate ensued.

Session V was orchestrated by a critical review by D C Watt. He observed that the Colloquium had become pre-occupied with what governments do rather than with people and opinions, thereby seeming, superficially at least, to align himself with Ian Stewart. He felt that there is a gap of 3,000 miles between Britain and Canada, and that the bilateral relationship is perhaps marginal to the major interests of the two countries. He saw a danger of the two countries drifting further apart, and suggested that each needs to be reminded where the San Andreas fault lies in each country. He emphasised rural/urban tensions; the problem of the under-classes, the existence of centrifugal tendencies. Perhaps the FTA and Britain's commitment to Europe did in fact weaken the bilateral relationship. And is the Commonwealth a serious multi-lateral grouping or a congress of bilateral connections? Doubts were cast upon the presumed North-South divide given the role of Japan, South Korea, Singapore etc. The problem of Africa, of the security of small and vulnerable states, of refugees, had not figured large in the Colloquium discussions, but they are ones in which both the UK and Canada have interests. Industrialisation in Eastern Europe has produced major ecological disasters and economic imbalance which must be confronted. Watt suggested that old-fashioned categories inhabit our minds, and that inspiration must be sought in the imagination.

By invitation Peter Dobell constructed a balance sheet of the discussion at Leeds Castle, suggesting that there are three dimensions to the Canada-UK relationship. These are the inter-governmental, business and commercial links, and personal relationships. The last he found declining as the percentage of Canadians of British background declines, although Britain also serves as a gateway to Europe.

Business and commercial links had been touched on with the Colloquium, and no doubt these would continue. But Canada in addition to looking South to the US was also looking West to the Pacific. With regard to inter-governmental relations he re-emphasised that in Canada the several provinces are increasing their own inter-governmental links, and that many issues that had been decided with London now have to embrace Brussels. Increasingly, therefore, it might be said that the bilateral relationship has increasingly become a more complex multi-form relationship.

Wider discussions ensued in which differences were pointed to in the Canadian and British responses to the Commonwealth, Canada seeing it as an opportunity, Britain tempted to see it as a ball and chain. Canada peacekeeping forces were referred to as suggesting a wider role for Canada in the UN, and attention reverted for a while to the Canadian experience of federalism, which could be useful to Britain with regard to the EC. It was observed that Britain cannot be Canada's Trojan horse in Europe, nor Canada be Britain's with regard to the US.

The closing session rehearsed a number of the positions previously adopted. It was believed that Canada had a role to play in forming the architecture of the new Europe but it was also observed that in the years since the Dalhousie meeting in 1984 there had developed a great perception of the UK and Canada drifting apart, largely due to the renewed vitality of Europe, a European renaissance that would give it a global role by the year 2000. Despite an attempt to draw the Colloquium to consideration of vital national interests rather than the more amorphous concept of 'relationships', academic, kith and kin and cultural, members generally resisted this challenge with an extended discussion of immigrant assimilation.

The inter-action of perceptions and interest was however, fully recognised. Canada's increasing capital investment in the UK, e.g. Canary Wharf, Shorts of Belfast, was noted, and a possible role for Canada as a broker, albeit in restricted

spheres, between the UK and the US was seen as a potentially significant mechanism for the reconciliation of national differences. The Colloquium agreed on the need to capitalise the existing assets of the bilateral relationship, in full awareness of the changing global environment. Living as we do amid the bonfire of old certainties centres of stability are important. Good relations should not be taken for granted; those that exist should be treasured.

PART II
POST-WAR
CANADA-UNITED KINGDOM
RELATIONS AND THE
CHANGING POLITICAL
AGENDA



1 Britain and Canada since the Second World War: two much mutually entangled countries

Peter Lyon

Two themes seem to stand out for anyone who wishes to record the main vicissitude in relations between Britain and Canada since the Second World War: that the Canadians are much more given than the English to defining themselves, their policies and their doctrines; and to this lop sided availability of contemporary declamation and evidence must be added recognition that Canadian scholars and writers are much more prone than their British counterparts to examine the changing character of the relationship - whilst usually insisting that it is of declining importance. In this one latter respect Canadians often bid to take over that otherwise favourite sport of many British academic social scientists - 'declinology'.

The Second World War

The Second World War impelled a quantum leap in British/Canadian relations [1]. Allies in war throughout (Canada coming in by decision of the Canadian parliament just a week after Britain in September 1939) these two countries shared one overriding all-consuming aim, victory. For the first two years Britain and Canada were fighting allies, with the Americans neutral but clearly sympathetic to the Anglo-Canadian cause. As soon as the United States became a co-belligerent, at the end of 1941, the whole scale and scope of the war rapidly enlarged and prime leadership passed from Britain to the United States, though not without much intermittent chuntering from the British about such matters as strategic plans and priorities, the post-war

international colonial order [2] or American activities and presences in the Canadian north [3].

Impelled by the necessities of war a virtual mini-Whitehall arose in Ottawa, and working personal links and friendships were forged between a generation of officials from the two countries which was to be an important lubricant of relations between them for about twenty years [4]. Newfoundland changed rapidly from being a bankrupt ex-Dominion, with British receivers called Commissioners directing government, into a more operational base, especially once the United States came into the war and poured capital into the island to develop its capacity to wage war.[5]

A welcome Canadian invasion of Britain began in December 1939 and eventually nearly half a million Canadian servicemen and women became residents of Britain for three and a half years or more [6]. One telling index of their welcome and of British receptivity was that, eventually also, more Canadian soldiers took home British brides than did their American counterparts.

The invasions [7] were not all one way, of course. The influx of would-be pilots to learn to fly under the Commonwealth Air Training Scheme was of importance out of all proportion to their numbers. And 'Special-25', a secret World War Two espionage training centre near Ottawa, produced its first graduate in 1942, Ian Fleming. Canada's part in inspiring James Bond, and 007, is not, I think, widely known.

The Battle of the Atlantic, a surface and submarine contest for control of the Atlantic sea lanes, precipitated Newfoundland to unprecedented strategic importance, and lasted for the duration of the war. The Allies altogether lost 5,150 sailors during the war, more than half of these were sunk in the Atlantic, mostly by German U-boats. The Royal Canadian Navy lost 1,965 men, most in Atlantic service. When Canada declared war on Germany on 10 September 1939 the Royal Canadian navy had six destroyers and four minesweepers and only 3,684 officers and crew, including reserve and volunteer forces. Within a year more than 10,000 personnel had been recruited. By 1944 95,705 officers and men were serving in 378 warships.

By the end of the war there were over a million Canadians in uniform out of a total population of about 11 million, surely an enormous proportion of the adult human capital of the country. Fifty thousand had lost their lives. Military expenditures exceeded \$11 billion, aid to Britain \$2.5 million. Prime Minister Mackenzie King's promise, made in London in 1941, had been kept. For he had said then, 'We will be with you to the end.'

As airpower developed the Atlantic ocean narrowed in logistical significance. Even so, air travel across the 3000 miles of Atlantic water was still tediously long, often taking between 16 and 18 hours, and uncomfortable, quite apart from the hazards of circumventing enemy planes in war time.

Britain's wartime High Commissioner to Canada, Malcolm MacDonald soon displayed a well-nigh infinite capacity for taking planes. Not only did he advocate extensive travelling around Canada for the British High Commission, but travel was something he himself much practised as well as advocated. Later, he was to claim that when he was High Commissioner in Canada in the early 1940s he 'held the record for trans-Atlantic flights by a civilian, crossing the ocean twenty-eight times' [8]. It is perhaps worth noting that when in 1984 Sir Derek Day journeyed to Canada to take up his High Commissionership he went by ship! For MacDonald some of his flying was, by his own account, more testing and adventurous than his close involvement with a very few top Canadians in investigating the facts of the Gouzenkou Spy Case [9].

Canada was caught up too in one of Britain's many military disasters in East Asia. In 1941 the Mackenzie King government had agreed to a request by the British government to send two battalions of troops and a brigade headquarters to help defend the Crown Colony of Hong Kong. Japan attacked the colony on 7 December 1941 and it surrendered on Christmas Day. In the fighting there that December 290 Canadians were killed, and of the 1683 officers and men taken prisoner, 557 died in Japanese camps before the end of the war. The Canadian government set up a royal commission under Sir Lyman Duff in 1942 to enquire into the disaster, following charges that ill-trained unprepared troops had been sent. Duff's report largely exonerated the government from blame, but the disaster remained in Canadian folk-memory until the 1980s when the influx of Hong Kong Chinese into Vancouver and elsewhere, (at a time when it has become increasingly fashionable to talk of Canada's Pacific-Rim destiny), brought new problems and preoccupations.

Co-architects of a new order

Its remarkable exertions throughout the Second World War, the expansions of the Canadian economy, and Canadian activities and roles in helping to shape the postwar international together with Britain and the United States, amply indicated that a retreat into neo-isolationism was unlikely [10]. A new era of active internationalism had started for Canada and in Cold War as in World War her two principal partners were the United States and Britain, but very much in that order of importance.

The second half of the 1940s saw the flowering of Canadian doctrines and practice of functionalism, of multilateralism and of conceiving of Canada as a middle power.

A speech delivered by the new secretary of state for external affairs, Louis St Laurent, in the Gray Lecture at the University of Toronto in 1947, signalled that postwar Canadian policy would build on the experiences of the wartime generation in terms broadly acceptable to Irish-Canadians and French-Canadians alike. In tandem with Britain and the United States certainly, but, not least of all, also with an unmistakable Canadian distinctiveness, roughly comparable to that assumed in the late war. St Laurent in calling for active participation with others, as well as with the two traditional allies, especially advocated and endorsed Canada's role in broadly based international organizations. In these formative years for postwar international institutions Canada's participation in the UN was shaped and coloured by functionalism.[11]

Economic factors already had underlined that the United States was much more consequential for Canada than Britain. The Ogdensburg Agreement of August 1940, and wartime experience demonstrated unmistakably that a US Canadian symbiosis in joint continental defence was necessary, and in this regard Britain was virtually irrelevant. But in two arenas of importance to both Britain and Canada in the second half of the 1940s, the Commonwealth and NATO, they crafted remarkably similar policies. Both came to agree that India's continuing membership of the Commonwealth, albeit with republican status, was desirable. Both sought to ensure that NATO should be shaped initially as more than a stark military alliance and in Article 2 Canada's, in fact Escott Reid's article, a formula was found to encourage the development of an embryonic political community - though this remained virtually a pipe-dream [12].

History is lived forwards but written and sometimes even read backwards. The shadows of the 1930s and early 1940s lay heavily on the minds of policy makers of the late 1940s. No more appeasement, a better international economic system, no mass unemployment, the outlawing of genocide, clear citizenship and nationality laws - these were some of the preoccupations of the time. Most of them rested on some reading of what were seen as the indelible lessons of the 1930s. Two examples must suffice here.

The Statute of Westminster of 1931 was the treaty-cum-constitutional device for freeing Dominions from the imperial umbilical cord and enabling them to assert more confidently and more credibly their full fledged independence. The Ottawa Economic Conference of 1932 was designed to create some common economic shelters to withstand the blizzard of the world depression. Ironically both projects misfired somewhat. Australia and New Zealand showed no marked enthusiasm to ratify the Statute and neither of them did so for a number of years. Canada did not either, but not because of British dissuasion or obstructions. Federal-provincial arguments once again acted as Canada's brake and it was not until the 1980s and the passing of the patriation bill that the British North America Act of 1867, many times amended, finally 'came home' [13]. The Ottawa agreements are often seen, especially in some American demonologies, as the British erecting an imperial economic scheme of protectionist preferences. The reality was messier, much less comprehensive than is often believed and relatively short-lived in its impact and durability. Perhaps the most salutary lesson to be derived from these episodes is to note the tenacity with which myths manufactured from these events have so often shown themselves to be much better known than the prosaic realities of what actually happened.

The onset of the Cold War was accompanied by extremely cold weather in both Britain and Canada. High demand and acute shortages produced a fuel crisis in Britain in the winter of 1947; whilst on Saturday 2nd February in that same year the proud small town of Snag in the Yukon registered the lowest temperature in North American history - minus 81 degrees fahrenheit.

In the same momentous year, 1947, oil was discovered at Leduc, Alberta, providing the first convincing indication that a large scale oil industry was feasible for Canada and particularly for Alberta. This, together with the enormous field of the Athabasca tar sands was to transform the province and Canada's energy picture within two to three decades.

An approximately wry epilogue was passed in 1949 on the end of Newfoundland's in and out experience of Dominion status. The inimitable Joey Smallwood, the province's Premier, sent a shipload of fish to famine-wracked India with a note attached, 'Nehru, my cod to thee'.

Cold War partners in Europe and friendly but distinct powers in Asia/Pacific 1950-56

The Korean War, 1950-53 [14] saw limited hot war break-out in North East Asia and the continuance even the intensification of the Cold War in Europe and elsewhere. In Korea Canada acted within the context of a Commonwealth division. Elsewhere in Asia, especially in South Asia, it was Commonwealth connections which helped shape and condition Canada's contacts with India, Pakistan and Ceylon in these years, both bilaterally and through the Colombo Plan. In Europe NATO and the OEEC were Canada's principal multilateral associations. These were the years in which Canada

came to prominence as an active practical peacekeeper - in the ICC for Indochina, within UN teams in Kashmir and Suez and, later on, in the Congo, Cyprus and Namibia. As offshore western European powers involved in NATO (with its new US dominated Command and Control System coming into being in the early 1950s) Britain and Canada were closely aligned on European issues but much less clearly so with regard to South East Asia and the Middle East in these years. Unlike Australia and New Zealand, Canada did not join SEATO or take part in counter insurgency operations against communist terrorists in Malaya. But it was Britain's misadventure in Suez [15] in 1956 which saw marked differences in the policies of the two countries.

During the early stages of the Suez crisis (say July-September 1956) Norman Brooke (cabinet secretary), Anthony Eden and Alec Douglas-Home (secretary of state for commonwealth relations) regarded Canada as 'wobbly' -that convenient euphemistic term in the lexicons of Whitehall for Pecksiffian (but meaning here unctuous rather than consciously hypocritical). In the event it was Pearson's inventiveness and diplomatic resource which led to UNEF and a face-saving formula for getting British and French troops out of Suez if not for pulling all Britain's charred chestnuts out of the fire. Canada also played a part in recomposing the Commonwealth after its acute disarray and collective inactivity between July 1956 and June 1957. In part this was started by the Grits and by Canadian officials, but it was accelerated and much accented by John Diefenbaker, eagerly bent on showing that his pro-British and pro-Commonwealth credentials were superior to those of Pearson.

Bilateral British-Canadian ties remained, however, mostly harmonious. In 1954 a British author committed the relatively rare offence of writing a book about Canada. The author was Ernest Watkins, a Liverpool-born ex-solicitor who had served with the AA Command in Iceland in World War Two and was now an assistant editor on the Economist. He called his book Prospect of Canada and argued that the Dominion (sic) of Canada was taking over a role which for the preceding century had been played by the United States, the role of 'land of opportunity'. This was because south of the 49th parallel the days of the expanding frontier were over whereas north of it they were only just beginning. Watkins regarded himself as a traveller in and commentator on a still young nation which had found itself 'the lynch-pin' in the mechanics of Anglo-American relations. He wrote after spending several months in Canada in 1953 travelling from coast to coast.

Right at the end of his book Watkins, in his sober prosaic way, addresses any would-be immigrant into Canada from Britain in the following far from lapidary terms, and with that unselfconscious male chauvinism characteristic of the day:

If an immigrant from Britain wishes to import intact into Canada all his habits and tastes he becomes, in Canada an eccentric, and the cost of living for an eccentric is usually higher than for the norm. But, if he is that kind of man, he had better stay at home. Canada is no longer a place to which one can import with success a routine of life from outside. To enjoy it, the settler must become Canadian, at least in the mechanics of living. If he does, he is likely to get as much from his life as most Canadians do.

None the less Watkins' book is compact and lucidly written, still well worth reading even today. He was a shrewd British guide to Canada in the first half of the 1950s.[16]

The Diefenbaker Interlude

Harold Macmillan and John Diefenbaker's periods in office as prime ministers of their country almost exactly coincide, and the records of both men are now undergoing much reappraisal and re-evaluation. For Diefenbaker one of his announced missions was to restore Anglo-Canadian cordialities, unnecessarily or at least excessively wounded by the Suez affair, or so he said and apparently thought. Macmillan spent less time than his Canadian counterpart musing about relations between their two countries. Though he retained pleasant memories of being in Ottawa just after the First World War, as an ADC to the Governor-General, the Duke of Devonshire, he concentrated on courting and eventually marrying one of his daughters. Volume two of Alistair Horne's recent majestic biography of Macmillan, which deals with his years as prime minister and after, certainly does not convey the impression that Canada occupied much of Macmillan's time and attention during his premiership for all his generally benignly genial attitude to that country and its people.

Diefenbaker has not on the whole enjoyed a good posthumous press [17] from scholars and analysts - whether deservedly or not is eminently debatable. Lately, however, a book by H Basil Robinson has raised reassessment and re-evaluation of Diefenbaker to a new level of informed objectivity. It would be wrong to say that Diefenbaker's fame lay entirely in his skill at the faux pas, but this undoubted skill certainly contributed to his reputation.

Diefenbaker's spontaneous - indeed impulsive - decision to commit himself to achieving a switch in Canada's trade of 20 per cent from the United States to Canada was typically vainglorious and sprang from no previous preparation or staff work on the subject. In foreign policy matters Diefenbaker often compared and measured himself against Pearson, and was found wanting. Basil Robinson's recent study shows that Diefenbaker had a deep vein of grudging respect for Pearson, his reputation and achievements, which did not, of course, inhibit him from concentrating his very considerable forensic skill and fire on the liberals leader whether in parliament or on the hustings.

With Macmillan Diefenbaker's main clash came not over trade or the prospect that Britain might seek to join the EEC - irritating though these issues proved to be at times - but over 'the Chiefs' belated but then very determined campaign to force apartheid-practising South Africa out of the Commonwealth. Here, curiously enough, it was Diefenbaker who came to line up with Tunku Abdul Rahman of Malaya and Kwame Nkrumah of Ghana whilst Macmillan sought unavailingly to patch up a compromise which would keep South Africa in the association. The evidence available at the time does not suggest that either the British or Canadian publics at large were much exercised about this issue.[18]

Pearson and the Personalities

When the Liberals returned to office in April 1963 relations between Canada and Britain were, according to Paul Martin, 'somewhat ruffled' [19]. Nonetheless, official relations were soon being resmoothed. Sir Alec Douglas-Home, then Britain's prime minister, and 'Rab' Butler, his foreign secretary, visited Ottawa in the cold of February 1964 and the latter was so much at ease that he put his feet up on the Cabinet table and so shocked Paul Martin's strong sense of the proprieties; though Martin hastens

on to say and show that personal relations between top Brits and Grits were 'always convivial' with neither side taking too much for granted [20].

One of the superficial curiosities of Pearson's prime ministership is that he devoted much more time and attention to domestic than to foreign affairs though most of his professional career had, of course, been spent on the latter pursuits. In this respect Pearson avoided the kind of mistake made by Anthony Eden who in effect refused to delegate the main conduct of foreign affairs once he had assumed the prime ministership. Paul Martin was secretary of state for external affairs with remarkably little interference apparently from his prime minister, who was preoccupied with such issues as bilingualism and biculturalism, Quebec within Canada and the national flag.

In marked contrast to the rather positive foreign policy of a temporarily, almost accidental, near great power status which Pearson had encouraged and practised from 1945 to 1956, during his prime ministership he and his relatively small and closed circle of advisers found themselves facing newer and greater problems at the domestic/external interface. In practice there was a resurrection of Continentalism virtually dictated by economic and strategic trends which underlined Canada's relative weakness and inferiority vis-à-vis the United States, and which led to some acerbities over Vietnam. Undoubtedly, too, there was an air of muffled uncertainty about Canadian foreign policy, evident even in Paul Martin's much later account of his dealings with Britain in these years, which belied her comparatively high economic and political standing among the in-between medium powers and the considerable international reputation of the Prime Minister. [21]

De Gaulle's Olympian descent on Quebec in July 1967 studiously avoiding Ottawa and gratuitously insulting the federal government, not only by intoning 'Vive Quebec Libre' but also by caricaturing and disparaging the whole concept of Canadian federalism, perhaps had a short-term consequence of throwing British and Canadian governments together. Both were recipients of the President's dismissive comments and calculations. Britain, in its belated attempts at membership of the EEC already had suffered two French vetoes in 1963 and 1967.

During the winter of 1967, Canada's centennial year, the department of external affairs established a special desk in its Commonwealth division to keep tabs on the numerous items under discussion with London. Canada's support for Britain's stand on Rhodesia had raised its stock in London. Paul Martin also notes that French problems within NATO were no longer so pressing as to cause disagreement between Britons and Canadians.

The Trudeau Years

The long periods of Trudeau's prime ministership of Canada may be summarised, over-simply, as from Trudeauophilia to Trudeauophobia via Trudeauumania. What does seem evident is that the Trudeau's foreign policy record overall has been much inspected and analyzed [22], but the British connection does not obtrude as of much importance. Trudeau himself changed from being a detached sceptic regarding the utility of the Commonwealth into being a considerable advocate of its relevance and practicality regarding contemporary affairs.

At the outset of the Trudeau administration, enunciating doctrine and working out policies afresh from first principles seemed to be the ascendant style. The 1970 papers

on Foreign Policy for Canadians with their conspicuous inattention to traditional bilateral relations with either Britain or the United States, their critical scrutiny of the Pearsonian legacy and their hard headed advocacy of the pursuit of national interests, heralded this new style which was fashioned deliberately to suit the new leader. This overreaction against former verities was more complicating for Canada's relations with the United States than with Britain, for the very reason that Canada's interdependence with (dependence upon ?) the United States already was profound and virtually inextricable. These were matters which Mitchell Sharp's efforts to devise, in 1972, a 'third option', did not disguise.

With Britain there were a number of marked contrasts in the approaches of the two countries to issues which surfaced prominently during the Trudeau years. Within the Commonwealth, and on North/South issues (though not within NATO) Canadian policy often seemed more positive and coherent than that of the British. In his last few years of office Pierre Trudeau actively sought to play the role of international intermediary and peacemaker and it was an open secret that Margaret Thatcher, in No 10 Downing Street from 1979 onwards, did not share Trudeau's enthusiasm for these ventures. In the specifics of relations between Britain and Canada the controversy over the patriation of the British North America Act, aroused some controversy and mutual irritation as did the matter of air landing rights and associated facilities for Canadian aircraft on British airfields. More generally the immense geographical pull of the United States on Canada and of the EEC on Britain, increasingly so since the UK secured membership in 1973, underlined the obvious point that these two countries had primary destinies in different regions.

The launching of British Association of Canadian Studies in the middle 1970s and the heightened cultural relations and sponsored activities funded by the Canadian government gave a renewed meaning and salience to 'culture', while prompting some charges, or counter-charges, of brain-robbery, jobbery or snobbery.

The Progressive Conservatives in Power - Mulroney - Thatcherism and the continuous present

The patriation of Canada's constitution, achieved at long last in 1982, did not mean the evaporation of all constitutional controversy in Canada, rather the reverse, for it gave a fillip to all those who sought to be litigious on matters of human rights. But it ended any direct British involvement in such matters. Thus an anachronism was ended in relations between Britain and Canada. For many years it was not British reluctance to participate but the absence of a consensus within Canada on how exactly to patriate which had long impeded this terminal severance of the old imperial umbilical cord.

The successful conclusion of the US Canada Free Trade Agreement disproved the late Herman Kahn's quip that Canada is par excellence a regional power without a region. The decision taken in 1989 to join the OAS after years, perhaps decades, of dithering over this issue also suggests that Canada at long last formally accepted a Western Hemispherical identity. Mrs Thatcher, her Bruges speech of September 1988 notwithstanding, made no bones about regarding Britain as irreversibly contracted into Europe - though exactly on what terms and in which precise company remained eminently debatable. Thus Canada is primarily a North American and Britain is principally a European power; but this does not mean that the twain cannot meet,

consider, and co-operate. Indeed, meeting, consulting and co-operating together is something these two countries tend on the whole to do rather well and frequently.

Perhaps the most convincing explanation of the relative lack of obvious conflict between them is the general compatibility and similarity of their interests. Officials in London and Whitehall tend to view world affairs in approximately the same way. Though, as we have indicated, a few notable differences have arisen from time to time about how to cope with some problems, on the whole assessments of the major issues of world politics and how to react to them have usually not differed much or significantly. Even the fact that the UK once had a much higher level of involvement in world problems is no longer markedly true.

No one is, or can be, an expert in all aspects of British-Canadian relations nowadays. The contacts are too many, too diverse, too swiftly changing to be entirely within the compass of one person or even one small group of experts, however much they may pride themselves, quietly and modestly of course in public, on their polymathicity. Even licensed, or semi-licensed, groups such as those around the ARO at Canada House or BACS are less than fully comprehensive in their contacts and coverage, and that this so surely signifies a sign of diversity, persistence of pluralism, and, maybe, of vitality.

In the early 1980s for Canada the standard characterising labels of the recent past were being challenged and revised. Allan Gotlieb, newly installed as Canada's ambassador to the United States (and immediately before that under secretary of state of external affairs in Ottawa) had this to say in a University lecture he delivered ex cathedra in Washington DC, in the Spring of 1982:

Canada is a large power; to call us a 'middle power' is inaccurate....As an immigrant country with a barely developed natural resource base to our economy, and a rapidly adapting capability in technology and processing, we are to some extent only now beginning to reach our true potential.

Just as earlier attempts at greater Commonwealth economic unity generally were responses to weakness rather than expressions of strength, so the Sterling Area was the response of the UK to the series of changes in the world economy that started before World War Two and were quickened and emphatically confirmed by the War and its aftermath. The one-time hegemonic financial position of the City of London had given way to Wall Street and Washington. The Sterling Area therefore became for Britain after 1945 at one and the same time a defensive mechanism and a means of holding on to the ultimately untenable delusions of grandeur. In the 1980s however, technology expertise and the big bang has seen London reassert itself as the world's premier single financial market, for Canadians as for many others.

In 1983 David B Dewitt of the University of Alberta and John J Kirkon from the University of Toronto together published a book with the arresting title of Canada as a Principal Power in a conscious attempt to break away from the orthodoxies of a field of study which they claimed had been for too long dominated by the 'middle power' versus 'satellite' debate. In the fairly full index to this book the United Kingdom gets only a few entries, fourteen in all, most of them passing mentions, though three of the four sub-heads concern Middle East policy, refugee policy and science policy. The fourth refers to the UK's declining influence on Canada's foreign policy, and examination of the text reveals that illustrations of this undeniable fact were most

markedly evident in the late 1940s during Diefenbaker's prime ministership and in the early years of Trudeau's first, long, administration.

Any full estimation of the current and continuing state of relations between Britain and Canada nowadays must take due account of cultural relations, including BACS. Anyone who, out of sheer ignorance, thinks that BACS is merely an excuse for holding an endless number of superfluous meetings, subsidized by the Canadian tax payer, had better take the trouble to read some of the scholarship which has been forthcoming from some of its luminaries in recent years: Ged Martin's spirited reconstruction of the forked roads between the 1830s and the 1860s, between Lord Durham and the national emergence of the old chieftain; James Sturgis on the theme of anglicization and its protean effects; Cedric May's enthusiastic luminosity on Quebec and its literature; Alan Williams on Newfoundland; Richard Collins on media matters; Michael Burgess or Michael Rush or Malcolm Punnett on aspects of Canadian politics; Coral Ann Howells on the fiction of Canadian women writers - and this is merely an indicative, far from exhaustive, list. Those sceptics who are disinclined to read books but would at least like to look at, to browse, in some evidence, could peruse the contents columns of the *British Journal of Canadian Studies* (formerly known by its more plebeian title as the *Bulletin of BACS*).

A few informed Canadians, lately have commented critically on their compatriots' present indifference to or ambivalence about Europe, attributing some of this to the astigmatic effects of viewing the world too readily through prisms fashioned either in Washington or in Whitehall/Westminster. Thus, for example Allan Gotlieb, now back in Ottawa from DC and in his new pulpit at the Canada Council had this to say recently:

It's a mystery why Canadians underestimate the significance of the advance of unity in Europe, and indeed, even denigrate it. This attitude is the result of a double error of vision: seeing Europe through the eyes of London and seeing it through the eyes of Washington.[23]

But are these lenses at all helpful and sharply focused on Europe in ways which really aids perception and vision? How shall Canadian governments and public (or, for that matter those of Britain or America) react to German reunification? Of course part of the answer must be that it depends on what kind of unification, at what pace and in what context with what corresponding changes. With what new arrangements for NATO for instance? Such is the bewildering speed of changes currently under way throughout much of Europe that events are once again in the saddle, with opinion in Britain and Canada lagging very much behind. Can mutual concentration and serious open textured discussion help to make sense of these somewhat mesmerizing changes? History is no longer on the anvil but on the hoof throughout what Gorbachev calls the common house of Europe.

Some of the old slogans and shibboleths are now entirely anachronistic and properly dead. Britain is no counterweight to the US for Canada, and by the time the notion had been invented the serious possibilities which might have invested the idea with real pertinence and meaning had gone. The signs from the recent past, and projections forward from present trends, suggest that the EC is not going to act as Canada's counterweight to its colossus in the south, nor will or can Japan.

We can, and probably will, talk endlessly on the theme of similarities and differences between Britain and Canada, for today and tomorrow. Does the fact that

New Brunswick's shattered Conservative party recently has elected 37 year old Barbara Baird-Filliter to become the first woman leader of a Conservative party in Canada portend the emergence of a Thatcher-like figure on the Canadian political scene? We are told that Acadian delegates were especially pleased that Mrs Baird-Filliter speaks French much more fluently than Liberal Premier Frank McKenna. In this bilingualism Mrs Baird-Filliter is, unlike Mrs Thatcher, trying to converse monolingually with a well nigh equally monolingual President Mitterand. Many Canadians apparently now believe that Quebec is setting the country's agenda on politics and on the economy, to a degree that is not true of any one region of the United Kingdom, not even the South East which is part of the London - Brussels - Paris Golden Triangle.

Ironically enough this is happening when many Quebecers think their province is in real danger of losing its French heritage. All that is at least evidence that the perennial, often obsessive, condition-of-Canada question rumbles on contentiously with the people, culture and issues that define the state of Quebec remaining a prominent part of the central Canadian conundrum.

Canada is not the golden hinge between Britain and the United States because nowadays neither power looks for nor needs even a friendly interlocuteur to ease and smooth the paths of their bilateral journeyings together. Within those multilateral fora where they meet as co-members: notably at the UN, or at NATO or at OECD or at G7 moots, sometimes these three of the North Atlantic triangle are in agreement at others not. This is a situation which must be expected to continue.

It is hardly revealing a state secret to say that Britain is not Canada's favourite Commonwealth country in all respects these days. Mrs Thatcher is said by one experienced British journalist to regard Brian Mulroney rather as she does Malcolm Fraser of Australia - as someone she once wrongly thought was 'one of us' but now sees as a 'renegade Tory wet.'

The future could, however, see an increasing number of strains in relations between Britain and Canada. In the recent past Canadian views about the nature and purpose of the Commonwealth, especially regarding policy towards Southern Africa, have been significantly different from those of Mrs Thatcher and there could be further acerbities. More significantly, it would not be surprising to find different assessments of American policy, or contrasting viewpoints regarding the future of the EC and the much wider question of Europe's 'Common House', forthcoming from British and Canadian sources.

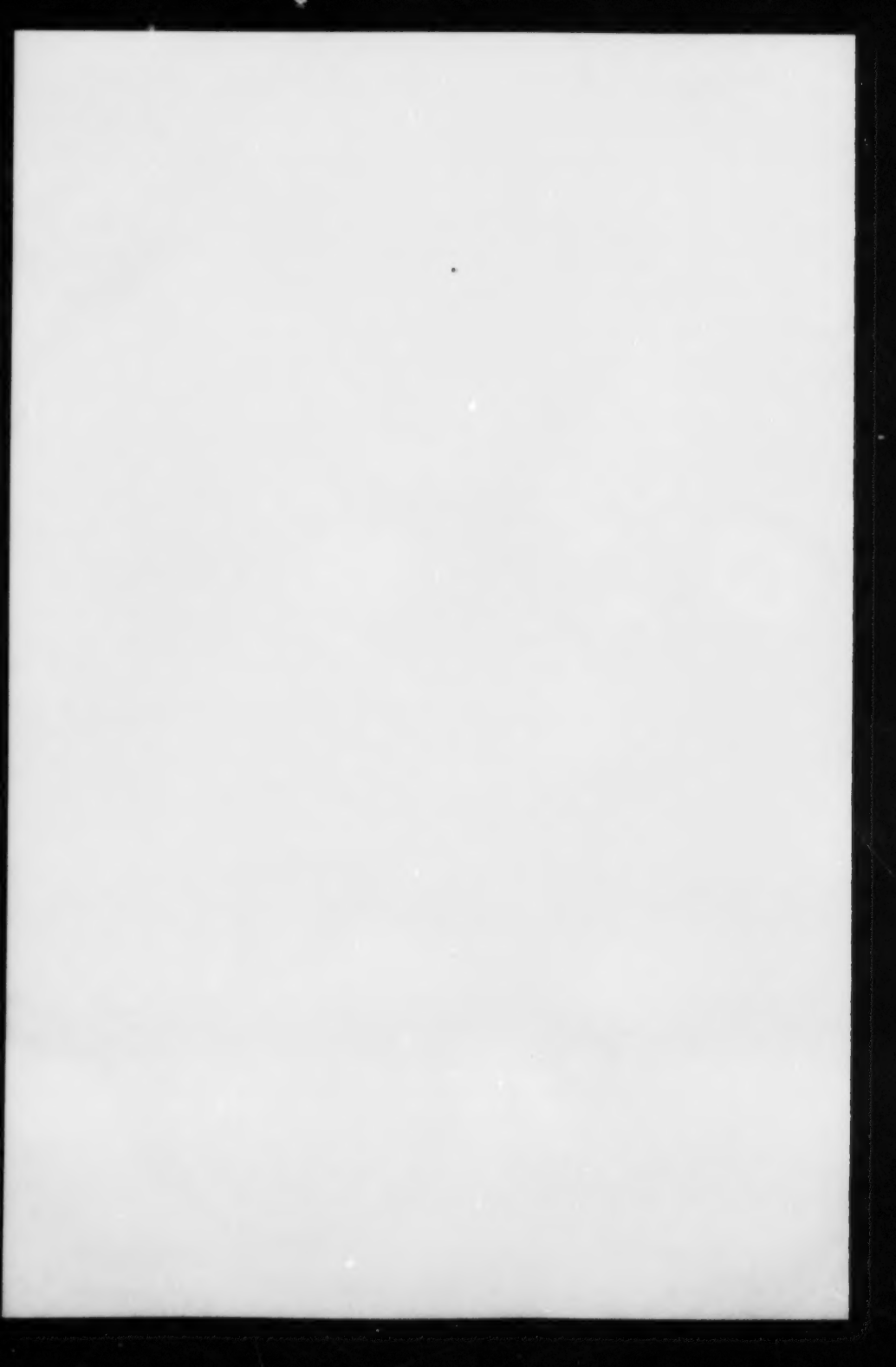
There are many more things of interest and importance to some people in both countries than are entirely known about either in Ottawa, or in London, England or London, Ontario for that matter. A good case can, and has recently been made to show that relations between these two countries are cordial, rather stable and on the whole mutually satisfactory [24]. Pangloss, however, is not and should not be regarded as the patron-saint of relations between the two countries.

Notes

1. See C.P. Stacey, Arms, Men and Governments: The War Policies of Canada 1939-1945 (Ottawa, 1970); and Denis Smith, Diplomacy of Fear: Canada and the Cold War 1941-1948 (Toronto: University of Toronto Press, 1988).

2. See Wm Roger Louis, Imperialism At Bay (Oxford: Oxford University Press, 1977).
3. See Shelagh D Grant, Sovereignty, Security, Government Policy in the Canadian North 1936 - 1950 (Vancouver: University of British Columbia Press, 1988).
4. See Joe Garner, The Commonwealth Office 1925-68 (London: Heinemann, 1978 esp. part 2 chapter 4-5). The author was the UK Deputy High Commissioner in Ottawa during the war, UK High Commissioner in Canada in 1957, and then in 1968 the first head of Britain's combined Foreign and Commonwealth Office.
5. See Peter Neary, Newfoundland in the North Atlantic World 1929-1949 (Kingston: McGill-Queen's University Press, 1988).
6. See C.P. Stacey and B.M. Wilson, The Half Million: the Canadians in Britain 1939-1946 (Toronto: University of Toronto Press, 1987) My LSE colleague Robert Boyce in reviewing this otherwise excellent book regretted the absence of any serious discussion of the cultural differences that divided, and sometimes united, the Canadians and their English hosts. Boyce adds that these differences are central to the story and yet appear to have been virtually absent in the Canadian-Scottish encounter.
7. This was of course, the second benign invasion of Britain by Canadians in just over twenty years. Billy Butlin, and others, had come to Britain in the Canadian army in World War 1. Unlike most of his compatriots Butlin stayed on afterwards. By 1964 Butlin's Holiday Camps had become the biggest in the world, and Billy had become Sir William.
8. See Malcolm MacDonald, People and Places. Random Reminiscences (London: Collins, 1969) p. 164.
9. For the Gouzenkou case see accounts in Denis Smith (cited at note 1 above), Joe Garner (at note 4 above) and MacDonald (in preceding reference).
10. On these themes see the spirited and side ranging discussion in Dewitt and Kirton's Canada as a Principal Power (Toronto: John Wiley & Sons, 1983).
11. See Dewitt and Kirton and also Douglas Anglin's Oxford D Phil thesis of 1955 - 'Canadian Policy Towards International Institutions 1939- 1950'.
12. See Escott Reid, Time of Fear and Hope. Making of the North Atlantic Treaty 1947-49 (Toronto: McClelland and Stewart, 1977).
13. For discussion of aspects of this much ramifying theme see Peter Lyon 'The Statute of Westminster and What Followed', in the Journal of the Royal Society of Arts July 1982, and Peter Lyon 'Is there an Anglo- Canadian Political Culture?' in the Bulletin of Canadian Studies Autumn 1983. It is not widely known that the Canadian currency was renamed the Canadian dollar rather than the Canadian pound as early as 1857.
14. See the excellent analysis by Denis Stairs, The Diplomacy of Constraint: Canada and the Korean War (Toronto: Toronto University Press, 1974).
15. The literature of this subject already is immense and still burgeoning. See, for example, Suez 1956. The Crisis and its Consequences. Edited by Wm Roger Louis and Roger Owen (Oxford: The Clarendon Press, 1989) especially the chapters by Michael G Fry: 'Canada, the North Atlantic Triangle and the United Nations', and by Peter Lyon: 'The Commonwealth and the Suez Crisis'.
16. Ernest Watkins, Prospect of Canada (London: Secker and Warburg, 1954).
17. See eg Robin Ranger 'How not to have a foreign policy - Canada under Diefenbaker' in F.S. Northedge(ed), The Foreign Policy of the Powers (London:

- Faber, 2nd ed, 1974) or Peter C. Newman, Renegade in Power: The Diefenbaker Years (Toronto: McClelland & Stuart 1963).
18. See H Basil Robinson, Diefenbaker's World. A Populist in Foreign Affairs (Toronto: University of Toronto Press, 1989).
 19. See Paul Martin, A Very Public Life vol 2 'So Many Worlds' (Toronto: Deneau, 1985) p. 404.
 20. ibid pp. 404-11.
 21. See Martin at note 19 above, especially pp. 404-11.
 22. See, for example, Peter C. Dobell, Canada's Search for New Roles. Foreign Policy in the Trudeau Era (Oxford: Oxford University Press for RIIA, 1972) and Bruce Thordarson, Trudeau and Foreign Policy (Toronto: Oxford UP 1972).
 23. Globe and Mail 14 August 1989.
 24. See Vivien Hughes, 'Canada and Britain Today' The Round Table, 313, January 1990.



2 The Singular Case of the Disappearing Link: the economics of change and the politics of survival in Canada-UK relations

Robert Boardman

The relationship between Canada and the United Kingdom has become a relatively neglected byway in the complex networks of connections among OECD countries. What metaphors best characterize it on the threshold of the 1990s? Can we still talk of a 'relationship'?

This is a link different in kind from many others in the western world, not least because it is more encrusted with residues from the past. These facilitate the two-way flow of effective communications, but also limit from time to time the enthusiasm with which either side approaches the other. Unlike the Canada-France relationship, this is not one that is central to the political aspirations of a major province. Missing too is a definable ethnic minority in Canada of the kind that helps to underpin Canadian relations with, say, Italy or the Netherlands. Anglo-Canadian relations lack the glue that can bond former enemies. No violent struggle for independence formed a backdrop for a reformed relationship between equals. The relationship is more marginal for Britain than that with any other individual member-state of the EC. Canada's intense preoccupation with relations with the United States during the 1980s pushed Europe, let alone Britain, out of thinking range. One speaker at the 1979 Leeds colloquium looked back over the momentous changes that had marked that decade, and concluded that 'In the on-rush of such a steady stream of large concerns and major changes, questions related to British-Canadian relations have virtually disappeared from sight.'¹

Yet the relationship continues to survive. In many ways it thrives. There are occasional irritants, but no major disputes. The tensions that do surface are remarkably easily compartmentalized. The relationship appears to be immune to viruses such as British environmental groups' attacks on Canada's treatment of seals in the 1970s or of fur-bearing animals in the 1980s, or its export of toxic wastes in 1989. British concerns over Canadian policies in relation to Suez in 1956, South African sanctions, defence and burden sharing, or the 1989 cancellation of the

proposed nuclear submarine purchase, left few if any explosive traces. Nor, despite its potential for damage, did the process of patriation of the British North America Act in the early 1980s. Canada for its part eventually adapted to the fact of British EEC membership. More recent contentious issues, such as British foreign student differential fees, fail to make the headlines. Officials talk with, rather than at or past, each other; the Canadian High Commission in London continues to enjoy an unusually close relationship with the Foreign and Commonwealth Office; no need is felt for a greater measure of institutionalization to strengthen ties.

The relationship has evolved slowly. That of today, however, is significantly different from that of fifty, or even twenty-five years ago. A very different relationship existed in the 1920s and 1930s, when Canada was newly finding its way in the world of states, and possessed of a spritely determination to avoid slipping back into the role of appendage to British interests, and when Britain was confronting the altering circumstances of an imperial role in a milieu of dominion governments. During the 1940s a familiar pattern began to emerge. The relationship became increasingly susceptible to change, for good or ill, induced by extraneous events. Webs of multilateralism threatened to engulf it. British decisions on that country's international trade in the late 1940s, and its reappraisals with the European experiment in the 1960s, had profound implications for relations with Canada.

Throughout the post-war period the process of constitutional change has nibbled away at the relationship: the amendments of 1949, the shift to the appointment of Canadian Governors-General, the entry of Newfoundland into confederation, a continuing sequence of Canadian and British redefinitions of citizenship rules, Canada's new flag, and constitutional patriation and the passage of the Canada Act with a Charter of Rights and an amending formula in 1982. From 1988 British-born Canadians were no longer allowed to queue-jump their compatriots by joining the EEC passport line at Heathrow.

Enough is enough, some concerned friends of Canada-UK relations began to say in the 1960s and 1970s. The countries had been allowed to drift apart. While it was already too late to nip the trend in the bud, concerted action could arrest its progress.

But even the most optimistic had to concede that the room for manoeuvre was not large. The Canada-UK relationship appeared to be in the grip of forces beyond its control. Indeed the larger post-war trends that were shaping it seemed to be fodder for economic, and geographical, determinists. Need any more be said than that, by the start of the 1990s, both Canada (with its Free Trade Agreement with the United States) and Britain (en route to the single market of 1992) had finally succumbed to the twin logics of commerce and location, ended their historically brief dalliance, and found a true home within a neighbouring giant?

This simplistic picture has a grain of truth. Governments in western societies are notoriously limited in their capacity to move economies. London and Ottawa have influenced, but in the last analysis have not directed the trend in trade between the two countries since 1945 (see Table 1). Continental Europe and the United States have been powerful magnets, respectively, for the private sector in Britain and Canada. On the other hand, it is far from clear that the post-1945 world has been dominated by the economics of bloc formation and consolidation.[2] The search for a negotiated extension of liberalization in the multilateral trading system is still alive and well. Choices have been faced. Indeed, with the advantage of hindsight, we can see that Canada has, one way or another, confronted choices that seemed oppressive in the 1940s. Serious complications would arise, a senior Bank of Canada official told a Harvard seminar in 1945, if Canada were forced to choose between Britain and the

US.[3] Charles Ritchie, musing in the High Commission in London in 1942, took a more resigned view:

Which way will England go? If history or geography can be relied on, I should say with Europe, and what about Canada? Probably under the US umbrella, where some of our professors of economics have been telling us for years we ought to be.[4]

Whether choices are genuinely made, or foisted on hapless humans by the rush of events, is in part a species of metaphysical puzzle. In reviewing the evolution of relations between Canada and Britain we can at least identify a number of periods in which changes of lasting significance were ushered in, whether by the decisions of governments or as a result of secular trends. This should allow us a useful historical perspective on the most recent phase, highlighted by the conclusion and beginnings of implementation of the Canada-US Free Trade Agreement, and the British approach, by way of the Single European Act, to the elimination of internal Community barriers.

We should not forget that Canadian discussion of the free trade option is older than Canada itself. Reciprocity, to use the nineteenth-century jargon, was in general not seen then as a step that would weaken relations with Britain - despite the occasional push from unwelcome decisions coming out of London. It was only later in the century, after confederation and the later creation of the National Policy, that debate on 'unrestricted reciprocity' began to take this turn. As Wilfred Laurier argued for the Liberals in the 1891 election:

The policy of this country must be based not upon sentiment but upon business principles. It is absurd to suppose that, situated as we are, the interest of Canada will always be identical with the interest of Great Britain.[5]

Anti-free trade sentiment prevailed in the famous election of 1911, many of the themes of which - alarm at the prospect of lost jobs, excitement at the lure of the American market, fear of a loss of the Canadian identity - echoed throughout the 1988 campaign (though by then the two main political parties had reversed their earlier stands on the issue). The election in effect put paid to serious discussion of the option for the next 70 years. Two longer-term trends, however - the protracted process of integration of the Canadian and US economies, and the Canadian pursuit of autonomy in dealings with Britain - persisted in subsequent years.

The latter was reinforced in the 1920s by the British reluctance to see important policy areas falling subject to an automatic resort to the principle of consultation with Canada and the other dominions.[6] From London's perspective, disunity among the dominions in any case made a consultative approach to foreign policy impractical. As Lord Strang observed of his Foreign Office experience in the early 1950s, the Canadians and the Australians were rarely of the same mind. [7]

More momentous change accompanied and followed World War II. After 1945 much of the bilateral relationship was flooded by the rising waters of multilateralism fed by NATO, the United Nations, the Bretton Woods system and a variety of other tributaries. Unilateral decisions were as significant. The Canadian federal cabinet decided on an early return of troops from Germany, despite the Attlee government's clear preference to the contrary.[8] Canada was also directly affected by Britain's paramount post-war economic needs. Dollar shortages and the commitment to the

sterling area prompted a search for soft currency markets. This gave French wheat, for example, the edge over Canadian purchases. Difficulties ensued for traditional Canadian export markets in Britain, such as apples, fish, bacon, beans, honey and berries. Before the war, Britain had taken 70 per cent of total Canadian canned salmon production; the 1949 figure was zero. By 1950 only 15 per cent of Canadian exports went to Britain, compared with the 1947 figure of 27 per cent. If Britain persisted with these policies, the Governor and Deputy Governor of the Bank of Canada told the British High Commissioner in Ottawa, 'pressures might be set up which might shift the whole outlook of the country towards the US as the only remaining economic life-line.'[9]

From the 1950s on, it appeared that little could be done to alter this course of events. Canadians continued none the less to toy with the idea of diverting some of the country's trade away from the US. John Diefenbaker's commitment in 1957 to increase trade with Britain by means of such a diversion came to nothing, though it did prompt a British suggestion for talks on a Canada-Britain free trade area. A related notion resurfaced in the early 1970s in the altered form of a diversification of Canada's trade, more specifically with a view to expanding ties with the EC. Pursuit of a 'contractual link' with Brussels, however, encountered in Britain both a feeling that this was an exercise in unrealism, and also objections from the Foreign and Commonwealth Office that such a venture raised too many touchy questions of Community competence for it to pass unchallenged.[10] Canada's constituency in Britain was also weakening. At the beginning of the 1970s occasional voices could still be found in Parliament in Britain lamenting the loss of 'a large percentage of our traditional markets in Canada to the Germans and Japanese.'[11] By the close of the decade, this was rare.

The domain of choice for Canada became progressively restricted. Nixon Administration's measures of August 1971 ultimately helped to persuade the Trudeau government of the wisdom of protecting Canadian interests by diversifying economic relations. The apparent failure of the 1976 Framework Agreement between Canada and the EC to produce any concrete, or even symbolic, results seemed to block this route. Similarly, Britain's membership of the EC was confirmed in the 1975 referendum. This would have ruled out a comparable bilateral initiative ('bilateralism' returned as an Ottawa buzz word in the early 1980s) had one been considered. It is perhaps not surprising that as Canadian debates in the 1980s began to retread the path of 1910-11, an intriguing emphasis was placed by some observers on Canada's alleged helplessness in the face of world economic forces. Buffeted by both the US and Europe, by the trade remedy legislation of the one or the Common Agricultural Policy of the other, Canada was portrayed in the role of Honeybath in The Mysterious Commission:

And if the one lot had been perfectly prepared to flatten him out against a brick wall, it was not to be supposed that the other would be backward in thinking up some answering pleasantry if it in the least suited their convenience.[12]

In an emerging world of large blocs, in other words, there was no option but to choose one to side with; and given that Canada's choice was in practice between the US and Europe, even this was illusory. The US seemed finally to have become Canada's 'only remaining economic life-line.'

A psychiatrist might observe that someone afflicted by a condition of learned helplessness is not well equipped to deal with a notoriously litigious personality.

Fortunately this image of Canada-US relations breaks down quickly. Even so, as Canada has come closer to the US, it has paid some of the penalties of more intimate association with a parochial neighbour. Americans are very parochial, as Allan Gotlieb defined the problem shortly after taking up his post as Ambassador in Washington, but they consider the world their parish. What are likely to be the implications of the FTA for relations between Canada and Britain?

Several considerations prompted a warm British response to the negotiations and their outcome. Closer links with the US appeared a natural and rational choice for Canadians, especially in the circumstances of the world economy of the 1980s; Canada was already perceived by many in Britain as part and parcel of the North American economy; practical benefits in terms of the opening up of Canada and the erosion of inter-provincial barriers seemed likely to ensue; and some observers were impressed by the simple fact that this was something that Washington wanted. Canada, some commentary implied, was being handed a golden opportunity that any other western country would have seized immediately. Britain had made its own tough choices; Canada was not exempt from the need to make similar decisions affecting its sovereignty. Yet in the crunch it was reaching out for protectionism and being precious about its culture.

When support for the free trade concept was voiced, however, Canadian charges of British interference in a domestic matter were quick to be levelled. This was especially the case when Prime Minister Thatcher, in her Rousseauian role as interpreter of the General Wills of other societies, told the Canadian Parliament in June 1988 that Canadians 'need have no fear' about entering such an arrangement, and the Washington Post in November that it would be a 'great blow' if Canadian voters were to defeat the FTA in that month's election.

Much will depend on the nuts-and-bolts evolution of the agreement, on 'the great issues that may hang from a boot-lace,' as Holmes put it in 'A Case of Identity': decisions in the dispute settlement machinery, the progress of data gathering and negotiations on the definition of subsidies, the approach taken by US Administrations to trade remedies law as applied to Canadian products, and the changing agendas of resource and trade politics in the two countries. Some consequences, such as the partial success in 1989 of interprovincial negotiations on the trade in wine across Canada, are already moving in the direction long desired by British exporters and officials uneasy with internal Canadian trade barriers.

The more intangible consequences of the agreement in the longer term, however, could conceivably act to weaken links. In its ten-year life it will at least serve to reinforce historical trends in aggregate Canada-US trade, and also to enhance Canadian official concentration on the day-to-day progress of implementation. Beyond that, Denis Stairs has suggested that the FTA is likely to add to 'the array of constraints that are already forcing Canadian policy-makers to accept the need for bringing much of their public policy more closely into line with that of the US.'¹³ Critics during the 1988 election campaign identified Canadian policies on regional development, culture, social services, and environmental protection as among the leading areas which would be likely to suffer from a process of Canada-US convergence. To the degree that any such process extends across external as well as domestic policy areas, the agreement might in the longer term be a factor encouraging, or at least failing to restrain, future US-European disputes and the mutual distancing of the two Atlantic poles of the western world.

But from the vantage-point of the present, this is speculation. For the 1990s it appears that, for Britain, a strong pro-Europeanism is a key rather than an obstacle

to good relations with the US, as the recent visit to Washington by the Foreign Secretary indicated. A similar logic probably applies to relations between Canada and Britain. Canada-in-North-America, and Britain-in-Europe, are partners attracted to each other; dehyphenated, the charm fades.

Relations have also been shaped by British participation in European developments. While this has marginalized Canada as a priority for attention, the effect has been limited by the incompleteness of Community involvement in the external affairs of any individual member-state and the importance of retaining a significant Atlantic role for successive British governments. A closed, inward-looking Europe has never held more appeal for the United Kingdom. As Mrs Thatcher repeated the general principle in her Guildhall speech of November 1989 in response, specifically, to events in Eastern Europe: 'While continuing to build up cooperation among the Twelve, we must not allow ourselves to become obsessed with the details of the Community's internal business as though nothing were happening elsewhere.' The declaratory ambiguity of many of the Prime Minister's statements on Europe, and the rhetorical defence of independent nationhood against the spread of an identikit European personality in her Bruges speech of September 1988, are not, of course, symptomatic of a British hankering to be free of Euroshackles. Extra-European areas with which Britain has a traditional and special connection, however, continue to have a distinctive value in this context, especially when, as is the case with Canada, political stability and friendship are combined with a resource-rich economy and increasing ease of access to the US market.

Yet in many ways this perspective is more true of the British than the Canadian side. A background of Canada-EC difficulties over fisheries, the CAP and other matters, fear of a growing trend of protectionism in Europe, and the historical record of apparent failure of the Canada-EC Framework Agreement of 1976, have combined to induce a lack of Canadian attention to European developments in recent years. Allan Gotlieb has attributed this in part to the relationship with Britain:

It is a mystery why Canadians underestimate the significance of the advance of unity in Europe, and indeed, even denigrate it. This attitude is the result of a double error of vision: seeing Europe through the eyes of London and seeing it through the eyes of Washington.[14]

Daniel Roseman has argued that Canada's relations with the Community are at a critical juncture. He calls for a return to the 1976 Agreement with the immediate objective of raising relations 'to a higher level of priority and to build confidence and goodwill between the two', and a longer-term objective of developing 'the political will to find the common ground on which to build a more positive and vigorous relationship than exists at present, a relationship where flows of goods, services, people, and capital are growing and broader common interests are advancing.'[15] Such arguments have been conspicuous by their absence in the 1980s, however, an indication of the lack of political will or private sector interest in taking the European route. Whether Canada-UK relations would be a beneficiary or a victim of such an approach is difficult to gauge in the abstract: it would depend on the way Canadians define 'Europe.'

It is a nice historical irony that the relationship has perhaps also benefited from not being construed primarily in Commonwealth terms. Had it been, it might now be on its death bed. 'We can live quite well without the Commonwealth,' as one senior British diplomat put it after his retirement in 1986.[16] A Canadian would not express

it in this way, not because of the character of the relationship with Britain or the quintessentially Canadian addiction to multilateral forums, but because of the Commonwealth's importance as a vehicle of Canadian approaches to North-South relations generally and of Ottawa's southern African policies more specifically. Canadian attempts to mediate between Britain and Third World members at past Commonwealth meetings on South African questions [17] have shifted to an acceptance of the only viable option of agreeing to disagree with Britain. Friction in this area, however, does not spill over into other parts of the relationship.

The Anglo-Canadian relationship of fifty years ago was more acutely asymmetrical than it is today. As Britain later retreated from its imperial role, coped with the protracted economic consequences of World War II, and adjusted to a diminished rank in the hierarchy of the powers, so it became more comparable with a Canada exploring the potential for middle powers in the post-war international system and even, according to some of its scholars, becoming an influential or 'foremost' nation. It was this relative change, Peter Lyon argued at the time, that made the case for a reappraisal of the relationship in the 1970s:

...only very recently have the capacities and predicaments of the two countries become sufficiently similar for the prospect of genuinely reciprocal relations to be possible and Potentially of mutual profit.[18]

At the same time, the dissimilarities of the two countries are also worth noting. The political agendas and topics of discourse of each are often markedly different. The extent to which Canadians have been preoccupied with the question of abortion in the 1980s has no parallel in Britain; nor has the perennial Canadian question of constitutional change and amendment, represented in its current phase by debate over the Meech Lake accord.[19] At least until 1986, Canadian courts were adopting almost a US-style activist stance in relation to Charter of Rights and other cases.[20] Similarly there could be no Canadian equivalent of recent British parliamentary discussion of such questions as the role of divorced Anglican clergy, or the future of the nuclear weapons force, or the disposition of remaining colonial territories. British debates on devolution often have an odd ring to Canadian ears, frequently ruling out as they do discussion of any of a variety of federal or consociational alternatives; so do pre-election scares of the supposed horrors of a 'hung' parliament. Indeed a Martian hunting for similarities would be well advised to look elsewhere for samples: at Australia, or Belgium, for instructive bases of comparison for viewing Canada, perhaps, or at France for clues for understanding Britain.

Similarities, of course, are neither a necessary nor a sufficient basis for a good relationship. And it is the underlying predicaments facing each, however similar or dissimilar the countries may be, that justify comparative investigation and joint exchanges on common Canadian and British problems: on the environment, for example, or multiculturalism and the relations between ethnic communities; on the search for balance in the connections between the state and the market, whether in the ownership of industry, or the provision of education and welfare services, or access to museums and art galleries; on the extent of and the proper limits to the rights of individual citizens in complex industrial societies; on the problems of living within the larger economies of North America or western Europe, and of working out the most appropriate institutional mechanisms for consultation among western states; on responses to change in the Soviet Union and eastern Europe; or on relations with the countries of the South.

The similarities between the foreign policy orientations of Canada and the United Kingdom since 1945 do not need to be laboured. Yet motives and interests have, within this broad commonality, often been disparate. Canada's early approach to the United Nations and its related agencies, for example, was much more grounded than was Britain's in the idea that functionalist cooperation could afford it opportunities for enhanced status and influence. The great powers had run the war; if they were also aspiring, or conspiring, to run the peace too then Canada needed new instruments to protect its interests.[21] Ottawa viewed NATO in large measure as an instrument for the multilateral restraint of US policies. Indeed Peter Gellman has recently suggested that there is 'a preoccupation with international organization in Canada's foreign policy that arguably exceeds anything observed in the foreign policies of other major industrialized democracies.' [22]

Such differences of emphasis reflect more fundamental ones. Canada has never been a great power; it is not a member of a society of European states for each of whom foreign policy exists on a plane outside and above domestic policy; internally, the central historical fact of Canada has been the fragmentation of authority and the geographical dispersal of power. John Holmes went further: Canada 'is not and never was a 'nation state.' '[23] It was 'not so much a nation, more an act of faith', as Simon Hoggart viewed things from Britain in 1981.[24] Traditional European, and British, assumptions about foreign policy have often had only a tenuous hold in Canada. Indeed to many Canadians, R.A. MacKay wrote in 1938, 'the term 'foreign policy' has mysterious, if not also sinister, implications.' [25] Foreign policy, Canadians came to argue later, is rather something that springs naturally from domestic policies, or from the assumptions and institutions that underpin the pursuit of the mutual accommodation of competing domestic interests.

Some of the occasional stresses and strains in Anglo-Canadian relations may be a product of these differing perspectives. As Peter Nailor observed in his essay on the relationship in *The Round Table* in 1986, 'It is not really cynical to say that any inclination by a friendly state to be distinctive and constructive is bound to worry the British government.' [26] All of this does not mean that Canada should be seen, as it sometimes is, merely as a helpful aide to countries, like Britain, that do have real interests of their own, or as a useful intermediary between states in conflict. Canada's foreign policy may occasionally be illuminated, or clouded, by visions of a better world, but the more contagious symptoms are treatable. Indeed as the distance from the golden era of Pearsonian diplomacy has grown, so realism and the pursuit of interest, whether in the negotiations that led to the 1982 convention on the Law of the Sea or the discovery of the Pacific Rim, have steadily emerged as its guiding lights.

Many changes, then, have affected the character of the bilateral relationship between Canada and Britain. Changing patterns of migration, and the shifting multicultural mix in either country, are among the factors that have reinforced a tendency towards mutual disinterest. Ethnic groups in Canada that could be broadly described as British accounted for 62.6 per cent of the population in 1851, and 43.6 per cent by 1981.[27] Tangible links, such as the peak of more than 50,000 Nova Scotians who were at one time Gaelic speakers, have slowly evaporated. Immigration into Canada had a predominantly US, British and West European character in the 1950s; the composition had changed to approximately three-quarters from Third World sources by the late 1980s.

Change on this and several other fronts prompted John Holmes' extended note of regret in 1966:

Two countries closely associated for centuries, Britain and Canada, are drifting apart, and it is a pity. Few states in the world have so much in common; few states need each other more. Their histories are entwined. The institutions of the younger grew from those of the older, and in partnership they created the Commonwealth. Although they grow ethnically dissimilar, they share one common language and a rich heritage.[28]

The point was echoed in Britain by Alastair Buchan in a 1972 letter to The Times: 'The British, and successive British Governments in particular, have shown almost total indifference to Canada for the past generation.' Ottawa was a wayside halt for Prime Ministers travelling to or from Washington; other ministers rarely went. As chairman of the 1971 Anglo-Canadian colloquium, the first comprehensive appraisal since the 1930s, he could not find a single senior British minister willing to participate, even though the Canadian side included Lester Pearson. The British Council effort in Canada was the smallest for any country of comparable size; no British newspaper maintained a correspondent in Ottawa; there was no chair of Canadian studies in the United Kingdom 'and the very suggestion raises yawns of boredom on the part of our political scientists and historians.'[29]

The staged snapshots that began in 1971 have played some part in adjusting the positions of the subjects. Their representatives, from government, the arts, business, universities and the media, met at Windsor Great Park in September 1971, at the University of Leeds in October 1979, and, for the first time in Canada, at Dalhousie University in May 1984.[30] Meetings on specialist topics followed; the present colloquium at Leeds Castle brings the sequence up to date. Over time the atmospherics as well as the content have changed. In 1971 James Eayrs wrote of the 'roots of irritation' in the relationship, and 'the prickly irritability of much Anglo-Canadian diplomacy'. This was a product, he thought, of pride and patronizing, the strains of family life, and 'the fearful asymmetry of expertise'. [31] Writing about the 1984 meetings in the Globe and Mail, by contrast, Jeffrey Simpson found the two sides 'more comfortable with each other than ever before,' something that he attributed to the very drifting apart of Canada and Britain. There were

...no hang-ups, no burning bilateral issues, no inferiority or superiority complexes, no rhetoric - in short, none of the impediments Canadians might have encountered with a representative group of, say, Americans, Japanese or Mexicans....

We are never again as countries going to be near the top of each other's agenda. But we can talk in a more civilized and open way than just about any other two countries in the world.[32]

Among indicators of change, the evidence from media coverage on either side is ambiguous. The quality and the quantity are variable, though both, and the range of items recorded, expand when British newspapers have correspondents in Canada, for example to report general elections.[33] Pollsters intone evidence of ignorance and indifference.[34] Britain is more frequently in the news in Canada, in part because of the structure of newspapers' links with the British press or the main news agencies, and in part as a result of regional variations and tastes. Yet there is often no more sense of a traditional relationship at work than there is in reporting of, say, Iceland. Britons are quaint foreigners who sometimes make good copy; their race riots, soccer

hooligans and scandals have a profitable shock-value; they have a Prime Minister who uses the royal 'we'. [35]

On the other hand, Canadian studies have expanded at several centres in Britain, and data from Canada have become a normal comparative reference point at least for some political scientists. Relations with Canada still receive occasional treatment in Parliament, though attention is considerably down from the post-war peak of interest in 1950. [36] Britons who read novels, go to the ballet, listen to electronic music, or follow the world of sprinters, synchronized swimming, or snooker, are likely to have had at least partial glimpses of Canadians. Reviews appear more conscious of the hazards of stereotyping. Parodying the combined images evoked by Margaret Atwood, Philip Howard observed in 1980 that she

...has three strikes against her as a novelist before she puts paper in typewriter. She has been conscripted as a feminist writer (and therefore a humourless zealot.) She is Canadian (and therefore, like the Swiss, BORING). She is a poet (and therefore difficult). [37]

Gradual learning takes place, then, but it has its limits. A late joiner, with Italy, of the Group of Seven, Canada's presence still strikes an odd note in Britain. Ottawa does odd things, like deciding to buy nuclear submarines (and then deciding not to). Oblivious of Canadian arguments about the defence of North America or the neglect of the role of the Arctic in western security thinking, British critics periodically denounce Canadian defence efforts as grossly inadequate (as do Canadians [38]), or as good only by comparison with Luxembourg and Iceland. British defence debates tend to be relatively ignored in Canada, however, so that contrasting critiques are missed. Tessa Blackstone, for example, has recently argued that Britain has still not adjusted to changes in its international position: 'To continue to spend a higher proportion of GDP on defence than any other NATO country except Greece and the US is surely folly.' [39]

Does all this give us any clues as to the likely state of Canada-UK relations in the 1990s and beyond? Several competing metaphors, some more pessimistic than others, suggest themselves.

(1) **Bloc logic:** In the final analysis, alarmist scenarios of a drift to disputatious blocs enveloping Britain and Canada in opposing camps are unrealistic. Present-day international relations are too complex for that to be a valid image. Nevertheless, security and other tensions between the US and Europe could over time reinforce the attractions of Mencius' advice to would-be protectionists: 'Dig deeper your moats; build higher your walls.' Divorce between Canada and Britain would be a hypothetical consequence, or else their decline into an obscure relationship between distant and submerged actors, like Wyoming and Wales or Manitoba and Middlesex.

(2) **Rediscovery:** On the other hand, several sources of a possible revitalization of Anglo-Canadian relations were mooted in the 1970s, including a shift in the agendas of world politics that would place an emphasis on resources and highlight complementarities between the two countries' economies. Leaving aside the potential of economic, ecological or military catastrophes to generate such a closer bond, this now appears somewhat less likely than a decade ago. A continued process of mutual rediscovery happens on a smaller scale, however, and in the long run offers a sound basis for stronger ties.

(3) **Global leadership:** The newer agendas of issues of the 1980s and 1990s nevertheless offer considerable potential for collaboration between Canada and the UK. A leading example is the world environment, where both countries have, through the OECD and elsewhere, shown a capacity for leadership combined with the requisite base of expertise. These kinds of issues are significant not least because of the consequences they are likely to have for the organization of government. [40] As the British initiative of 1989 in relation to Brazil's forests suggests, however, much kudos still attaches to unilateral rather than joint approaches to global problem-solving.

(4) **Mutual learning:** The idea that exploration of common problems could usefully be a productive approach to Canada-UK relations was a feature of the 1980s that is likely to continue. It is in any case a much wider and normal part of the relations between the two societies. These kinds of functionalist endeavours have supported the view that any residual prickliness in the relationship is unlikely to trickle down from the diplomatic level to the practical study of concrete problems such as access to post-secondary education, the financing of museums, the prevention of crime, or the 'social dimension' of European or North American integration. As Britain approaches the European integration tasks of the 1990s, we can expect to see more discussion of the lessons from Canada's experience in developing closer ties with the US.

(5) **Deflection:** If the bilateral relationship had lost some of its magnetism by the 1960s, some of the slack has been caught up since by the unexpected emergence of the 1992 goals, and the coincidence of the Canada-US agreement. Integration processes on both sides of the Atlantic has also encouraged doubters in both Britain and Canada to explore the possibility of strengthening bilateral linkages with the other. Already, however, much former business between the two, on trade matters, for example, or fisheries, is in practice deflected into the wider framework of Canada-EC relations. As this continues in the 1990s, Anglo-Canadian relations may take on an increasingly residual character.

(6) **Slithering away of the state:** One possible result, in that event, could be the paradoxical one of a much more intimate enmeshing of links between the two societies together with a profound weakening of the roles of the two governments in tending them. Vast areas of the Canada-UK relationship, from electronically linked scientific laboratories to family visits, in practice fall outside the scanning range of governments. Future developments such as the emergence of global cable television networks would take this a large step further.

(7) **The art of gentle roasting:** Yet governments are clearly not redundant. As Mrs. Beeton used to advise her readers, coffee beans should neither be under-roasted nor left on the heat for too long. The relationship between Britain and Canada has been gently roasted (in the culinary sense) by London and Ottawa during the 1970s and 1980s, and 'roasted' (in the other Canadian sense) in Colloquia every few years. The trick has been to find the right balance between concerned attention and benign neglect, and between public sector underwriting and private sector self-help. This useful process is one that will undoubtedly continue. A watched pot might never boil, to switch the metaphors of the kitchen, but at least the watcher is alert to the risks of steam and spills. It has been interesting, too, to observe the shifting patterns of pressure in the relationship. Whereas a handful of Canadians tended to take the lead in pushing for change in the 1960s, by the 1980s it was more usual to find this kind of

dynamism on the British side. If there are cyclical trends in Canada-US relations, we might see another reverse during the 1990s; the constraints on the Canadian side, however, tend to be more formidable than those on Britain in this kind of exercise.

(8) **Multilateral takeover:** Multilateralism began to seep into the relationship in a serious fashion during the 1940s. By way of the western economic summits, CHOGMs, the North Atlantic alliance, the Uruguay round, UN agencies, and other mechanisms, much of the substance and flavour of Anglo-Canadian exchanges has become multilateralized. In many of these contexts, moreover, the need for associated bilateral meetings has slid down the priorities list of each side.

(9) **Strained encounters:** While the phrase Anglo-Canadian tensions seems almost an oxymoron, in some ways this has been a bonus from a lengthy history of diplomatic accommodation and good will. Can it survive further wear and tear? The continuing contrast between the international roles of Canada and Britain, and the relative dearth of friction points such as policy towards South Africa, suggests that it could. Disputes over trade matters, however, including dealings with third countries, may be less readily handled in an increasingly competitive world economy.

(10) **Parallel lines:** Individuals facing similar predicaments may feel no need to discuss them. The hypothesis of Canadian and British convergence does not necessarily carry with it a corollary predicting the exchange of ideas and experiences. Contacts of that kind could come to play a decreasingly significant role as each country grapples alone or in a regional framework with its stock of problems. The lesson of recent years, however, for example in past Colloquia, suggests that dialogues in well planned encounters do produce results.

Each of these pictures, of course, is an over-simplification. The link is multifaceted and operates on many levels. Continuity and gradual change is the hallmark of Anglo-Canadian relations. Yet it takes little more than a quick glance back even to the world of 1945 to realize just how profound have been the changes affecting the course of the relationship in recent decades. Is it true that, as a consequence of these changes, the link between Canada and the United Kingdom is indeed disappearing? 'Up to a point, Lord Copper,' as Boot used to tell his boss in *Scoop*.

TABLE 1**CANADA-US AND CANADA-UK TRADE, 1880-1987**

	UK		US	
	% expts	% impts	% expts	% impts
1800	48.3	48.3	40.6	40.3
1890	48.7	38.8	42.5	46.0
1898	64.4	25.4	27.0	59.2
1900	57.1	25.7	34.2	59.2
1910	50.0	25.8	37.3	58.9
1918	54.9	8.4	27.0	82.3
1920	59.5	11.9	37.4	75.6
1930	25.1	15.2	46.0	67.9
1940	43.1	14.9	37.6	68.8
1945	29.9	8.9	37.2	75.8
1950	15.1	12.7	64.8	67.1
1960	17.4	10.7	55.7	67.2
1975	5.4	3.5	77.6	68.0
1976	4.9	3.1	67.4	68.8
1980	4.3	2.9	63.8	70.1
1985	2.1	3.1	77.9	70.7
1986	2.3	3.3	77.3	68.6
1987	2.4	3.9	76.3	68.7

Source: R. Tremblay, 'La structure des échanges commerciaux du Canada avec l'Accord de libre-échange Canada-E.U.', in M. Gold and D. Leyton-Brown, eds., Trade-Offs on Free Trade (Toronto: Carswell, 1988), p. 18.

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3 Goose Pimples on the Body Politic: setting Canada's bilateral agenda

John Meisel

Introduction

This paper explores a number of socio-political realities and developments in Canada which affect or could affect the country's relations with the United Kingdom. While the domestic circumstances are important, their being singled out here should not deflect attention from the incontrovertible fact that developments elsewhere, sometimes of a global nature, now severely limit the freedom of action of any state, particularly that of a small, economically dependent country. Indeed, only rarely in the past has the agenda for action open to Canada been so mightily influenced by world-wide or regional trends reducing quite dramatically its ability to pursue the things the country's movers and shakers consider important.

The engulfing information revolution alters not only the conditions of individual life but also the structures and direction of national and world-wide economic organization. The once Moscow-dominated block is now becoming polycentric and undergoing undreamt-of internal change. In western Europe, national sentiment and organization, overwhelmingly powerful for the last hundred and fifty years, are undergoing attenuation likely to revolutionize the minds of the citizenry and the meaning of the nation state. Formerly sacrosanct cultural, commercial and political institutions are being modified, metamorphosed and even abolished at a rate which is compressing into months magnitudes of historical evolution that used to take decades or centuries. Under such conditions, Canadian tampering with the tax structure, railway transportation, language laws and even the constitution is like a goose pimple on the worldwide body politic. Still, within narrow limits, Canada can make choices and tilt slightly the direction of its national effort.

Although Britain and Canada are each driven into large, new trading blocks impinging on their respective sovereignty, they can, therefore, retain a modicum of control over their domestic and international policies, and the relations they continue to establish with one another. The argument can, in fact, be made that precisely because of the cosmic and critical nature of current changes, extending the ties between the two countries might make a good deal of sense for both.

Among the factors shaping Canada's capabilities and agenda with respect to its intercourse with the United Kingdom, six are singled out for discussion in what follows. They are

- 1) Changing demographics
- 2) The new crisis in English-French relations
- 3) The nature of party life
- 4) Evolving federalism
- 5) Private/public sector realignments and the globalization of economic organization
- 6) Shifts in value systems

1) Demographics

Not only its historical evolution but particularly the dominant political culture of Canada was, at least until the advent of the Second World War, essentially British. The composition of the population made this inevitable. A sizeable French element flourished in Quebec, to be sure, but its importance and influence were for a long time cultural rather than economic and political. The major institutions-commercial, industrial and political - were imbued with British traditions and were still in many respects oriented towards the United Kingdom. These circumstances, and the dominant mind-sets accompanying them, prevailed from Confederation to the Second World War and its immediate aftermath. During this period, the reigning ideology guiding the way in which Canadians defined their country stressed the British connection and ensured that the official and widely shared conception of the colony, dominion, and country was that it was British. All this changed in response to the decline of Britain as a world power and as the aftermath to the intense politicization of ethnic and linguistic issues accompanying the Quiet Revolution in Quebec. Reports of the Royal Commission on Bilingualism and Biculturalism in the nineteen sixties, and the subsequent adoption of various language laws led to a re-definition of Canada as a bilingual country - a partnership between its anglophone and francophone citizens. One consequence of this development was that in its diplomatic and other transnational perspectives, Canadians - when they were not bedevilled by their proximity to the United States - complemented their British and Commonwealth orientation with increasing involvement in the French world and helping launch la francophonie.

But even as this reorientation was taking place, immigration and declining birth rates among the charter groups, and most notably Quebecers, initiated another re-orientation in the country's self-definition. The advent of masses of immigrants, first from continental Europe and more recently from the third world, has dramatically altered the composition of the Canadian population - a process which is still continuing. [1] Complementing bilingualism by multiculturalism has affected not only

internal policies but also the postures Canada has adopted internationally. Prime Minister Mulroney's disagreements with Margaret Thatcher over South Africa, for instance, are no doubt in part affected by the changing Canadian demographic mosaic, although other factors are also relevant. Similarly, Canada's growing interest in the Pacific rim is nourished, among other things, by the presence in the country of rapidly increasing proportions of citizens of Asian origin.

2) English-French Relations

The crisis in French-English (Quebec-Canada) relations after the advent of the Quiet Revolution, which quite literally threatened the very survival of Canada, culminated in the 1980 Quebec Referendum. In calling it, the independentist Parti Quebecois (PQ) government intended to receive a popular mandate to negotiate a completely new agreement with Canada which would have annulled the existing federalist regime and would have resulted in the *de facto* independence of Quebec. About 60 per cent of the voters rejected the independentist option but it was estimated that roughly half of the francophones approved it. The result was nevertheless considered a serious defeat for the PQ government.

During the referendum campaign Pierre Trudeau and other federal politicians assured Quebecers that a 'no' vote would be followed by a renegotiation of the federal constitution. This was in fact done. The British North America Act was 'patriated', as the phrase went, from Westminster and renamed The Constitution Act. A Charter of Rights and Freedoms was included and other significant changes were made. But the 1982 agreement, while acceptable to all other provinces and to Ottawa, was categorically repudiated by the PQ government and widely decried in Quebec. Although Trudeau and his federal Quebec MPs welcomed the outcome, the Quebec National Assembly condemned the constitutional change in a rare unanimous vote.

Among the themes stressed by Mulroney and his Conservatives in the subsequent (1984) federal election was the need to ensure 'Quebec's return into Confederation.' This resolve was acted upon and resulted in the so-called Meech Lake Accord of 1987 among the Prime Minister and the ten Premiers. Among other things, it recognized Quebec as a distinct society in Canada. It seemed that the door was now open to the reconciliation of Quebec with the rest of the country. The independentist vogue appeared to be waning.

This impression was strengthened by other developments. The PQ had not only suffered two stunning constitutional defeats but also began to show the usual signs of wear and tear associated with having been in office for a while. It had alienated a number of former strong supporters, particularly public service unions, and it was increasingly prey to internal dissension. The government, confronted by the need to provide prudent administration, was increasingly at loggerheads with its ideologically committed rank and file. The charismatic PQ leader, Rene Levesque, lost some of his former élan and was no longer immune to internal criticism. He eventually resigned and in 1985 the PQ was defeated massively by the Liberals under the born-again Robert Bourassa.

The decline of the Parti Quebecois (and of independentism with it) was accompanied by other, related, societal developments. The idealism and reformist élan of the Quiet Revolution, which had animated so much of Quebec, and particularly the young, was giving way to different values. The business class, rather than the public

service technocrats, became dominant and admired; materialism and the wish to ensure and enhance personal advancement replaced the old community-centred zeal; nationalism often took second place to other concerns. Enrolment in business schools boomed and students generally appeared to have lost interest in politics. Membership in the PQ plummeted.

Most outside observers of the Quebec scene concluded that the threat of independentism had passed even more quickly than it had appeared in the 'sixties and 'seventies. This, however, was an erroneous interpretation ignoring the true nature of Quebec society and aspirations. The awakening came with the resurgence of the old language issue and as the result of the way in which some of English Canada responded to the Meech Lake Accord.

Quebec leaders have become convinced that if the French language, and therefore the French culture in Canada are to survive in Quebec, quite extraordinary measures are required, measures which inevitably limit the linguistic freedom of Quebec anglophones. The resulting language laws have offended many anglophones inside and outside Quebec, and some have been the subject of judicial proceedings which have usually struck them down.

Bourassa had promised, during the 1985 electoral campaign, to modify the existing law prohibiting English on shops and public places in Quebec. He failed to act on this commitment and when the courts declared the law unconstitutional, he invoked the 'notwithstanding' clause of the new constitution to bring in legislation which allowed English signs only inside and then only in some establishments. The 'notwithstanding' clause permits governments under certain conditions to enact legislation notwithstanding the fact that it contravenes the Charter of Rights and Freedoms. This action of Bourassa was met with howls of protest by all sides but most notably by English Quebecers. Three of his four anglophone ministers resigned from his government and an English protest party managed, in the subsequent election, to win four formerly Liberal, predominantly English, Montreal seats. In English Canada the reaction has been extremely negative and has considerably strengthened the already spreading opposition to the Meech Lake Accord and a rising tide of anti-French sentiment.

To become binding, the Meech Lake agreement had to be ratified by all the parties before June 1990. The Quebec National Assembly did so almost immediately after it had been negotiated, and Parliament and a number of other provinces followed suit. Changes in government in New Brunswick and in Manitoba, however, resulted in the new regimes strongly opposing the Accord. Although the Newfoundland legislature approved it, the Liberal government elected since this was done repudiated the earlier stand. The Meech Lake Accord which, at first, seemed to have been a strong unifying experience, turned out to have been deeply divisive.

The situation became so grave that a growing number of informed observers concluded that the very existence of Canada was in question. The possibility of Quebec separating, and the subsequent fragmentation of the rest of the country into small, independent polities was, at the time of writing, being discussed as a plausible consequence of the repudiation by English Canada of the Meech Lake Accord. Controversies generated by it have triggered two potentially fatal developments. In Quebec, there has been a dramatic increase in separatist sentiment, even among the formerly pan-Canadian, French-speaking business class. Outside Quebec, anti-French feelings have intensified and a growing resignation is evident to the idea that Canada might break up.

The future is at best uncertain. It is highly unlikely that the Accord will be signed in its present form but even if some sort of accommodation is miraculously found, the aftermath of the present highly emotional conflicts will impose deep strains on the political system for a long time to come.

All this is almost certain to affect our bilateral relations with Britain. If Canada is about to face a new, unprecedentedly threatening constitutional crisis it will have mightily little incentive and energy to devote to the forging of new contacts or to depart from its present pattern of stressing the bilateral arrangements with the USA and of playing its conventional role in multilateral diplomacy.

3) Party Life

What importance is attached to external relations during a period of national crisis, or at any other time for that matter, depends *inter alia* on which party holds office and on the general party configuration in Parliament. In this respect, the situation in Canada is probably not quite as clear and predictable as it may seem. The Conservative party, first under Joe Clark and then under Brian Mulroney, brought the long-lived Liberal ascendancy to an end, thereby altering the basic shape of Canada's party system by at last undoing its one-party dominant character. The system is now evolving into something else but it is not at all clear into what.

Both the Liberals and the NDP are regrouping under new leaders and the Conservative government has suffered a dramatic drop in popularity since its comfortable electoral victory in 1988. It is improbable that it will replace the Liberals as the more or less permanent 'government party.' The party has succeeded impressively in attracting national support from coast to coast in the 1984 and the 1988 elections, but it remains to be seen whether this is the beginning of an enduring pattern. The question confronting us, therefore, is whether Canada is experiencing a fundamental realignment of electoral support, and hence in the coalition of interests cohering behind the national parties. This may be taking place but it is at least as plausible to argue that we are witnessing a de-alignment which is not, as yet, being replaced by a new solidifying pattern of support for the main players at the federal scene.

Conservative strength is still solidly rooted in the west, although the NDP continues to be a major player in BC. In the Atlantic provinces Liberal strength was impressive in 1988 and the Conservatives, possibly because of their free trade initiative with the United States, met with disappointing results, as they also did in eastern Ontario. The centrepiece of the Liberals' status as the dominant party was their firm hold over Quebec. It was in large part Mulroney's ability to pry it loose which enabled him to defeat the Liberals and to win substantial majorities. The fact that he is a Quebecer is without doubt of major importance in this context. This advantage may evaporate, now that the Liberals are led by a French Canadian, although Jean Chretien's electoral appeal in Quebec has yet to be proven: his opposition to the Meech Lake Accord no doubt hurt him in his own province. At any rate, polls in the period between the two most recent elections indicate that Conservative support in French Canada is very soft.

Historically, governments have captured power in Ottawa after their parties won elections in a number of provinces. When the federal Tories came to power in 1984, the party controlled seven provincial governments and the Liberals were completely

shut out. At present, the Liberals hold office in five provinces, and the Conservatives in only four, and they are hanging on by their teeth in two of these.

Furthermore, the Conservative government has defaulted on some important election promises, which has antagonized important sections of the electorate. There is nothing new or unusual in this, of course, for the Liberals were guilty of the same inconsistencies when they held power. But the unctuousness and self-righteousness with which Mulroney criticized his predecessors on this and other scores, the number and scope of broken promises and the likely negative impact on large numbers of voters of several Conservative policy initiatives may well come to haunt the Conservatives when they next confront the electorate.

A major factor threatening the longevity of the Mulroney government relates to the Prime Minister's image, compared to that of his adversaries. He has many useful political gifts but the chief reasons for his success in 1984 and again in 1988 were that, in the first instance, Canadians voted against the Liberals in droves after the final demise of the Trudeau party, rather than for the Conservatives, and that John Turner, the Liberal leader, was a major electoral disappointment. This led to deep and public divisions within the Liberal party which enormously benefited the Tories. For most of the period of Liberal ascendancy, it was the Conservatives who were torn by internecine strife. Mulroney managed to put an end to this at the very time when the Liberals revealed violent internal dissension. Had the Liberals been more united, and had they been led by a more effective leader, the Conservatives might have experienced considerable trouble in the 1988 election.

It is almost certain that the traditional Liberal lust for power will emerge again, and that the party will present a united front under its new leader. This will provide a serious challenge to the Tories who, in addition to other handicaps noted already, will have to defend the record of a government which, in its second term, disappointed the electorate by welching on important promises and by introducing a number of policies it thought necessary, but which elicited massive opposition. Its heretofore solid electoral base in the west, notably Alberta, may also be threatened by the emergence there of the Reform party - a seemingly popular expression of extreme conservatism and of regional discontent.

What of Canada's major minor party? The NDP, even under conditions extremely favourable to it, has found it difficult to exceed the barrier of 20 per cent of the popular vote in elections, although it often does much better in intervening opinion polls. It has also failed, despite quite extraordinary effort, to gain a viable foothold in Quebec and is extremely weak in Atlantic Canada. Its support is concentrated on the west coast, in parts of the prairies, and in urban Ontario. Ideologically, there are deep divisions between the western and Ontario parties which may be hard to reconcile in the future, particularly with respect to constitutional issues. The recent contest for the leadership, necessitated by the decision of the popular Ed Broadbent to retire, has failed to attract the potentially strongest candidates - Roy Romanow, Stephen Lewis and Bob Rae. The new leader, Audrey McLaughlin, has yet to prove herself. Even if she does very well, it is unlikely that the party will come to power in the foreseeable future. At the same time it shows no signs of disappearing and so will no doubt again play a fairly important policy role when its parliamentary support is required by a party governing with only a minority of seats. Minority governments, which have been a distinctive feature of Canadian politics, are likely to continue on our political landscape, given the fact that new splinter parties are emerging and that the major parties can be expected to see-saw in strength, and to cobble together their national

support on the basis of certain regional areas of strength and the shifts in votes characteristic of the somewhat volatile vote in Ontario.

From our point of view the significance of these observations is that it is quite possible that the present majority Conservative government may, next time, be replaced by a Liberal one or by a minority government of either stripe. Mulroney's perspective is essentially a bilateral one in which the Canada/US axis plays a central role. He is not likely to seek any substantial change in current relations between Canada and the United Kingdom. A majority Liberal government, however, might wish to offset the closer interdependence between Canada and the United States ushered in by the Free Trade Agreement by trying to develop closer ties with post-'92 Europe. Britain might be a congenial and convenient conduit for this kind of rapprochement. A similar result could be expected from a minority government requiring the support of the NDP. This would be particularly likely if the Labour Party were to form the government in the United Kingdom.

Much of the foregoing is exuberantly speculative. No one can be at all sure of future party fortunes or of who might lead any one of our political formations. It is also possible that the whole situation will be confused by the various recently formed sectional or racist parties. But if the present analysis is anywhere close to accurate, it suggests that careful examinations of Canada's relations with Britain may well find a place of honour on the political agenda, and that there may be a desire to develop innovative approaches to redefining the relationship.

4) Evolving Federalism

If the future shape of the party system can only be dimly divined, there is no uncertainty whatsoever about the modifications of Canadian federalism and of the related changes in the manner in which Canadians perceive their state. Strenuous efforts by the Trudeau Liberals to halt the process notwithstanding, Canada has for a long time been becoming more and more decentralized. The nation-building forces of an earlier age have been replaced by province-building developments which increasingly circumscribed the central government's ability to take unilateral action, even in many domains under federal and not provincial jurisdiction. The centrifugal thrust received powerful support when the Trudeau party was defeated by the Conservatives whose orientation, perhaps strengthened by the fact that they at first held office in so many provinces, was much more sympathetic to the claims of the provinces than had been that of the Liberals. It is oversimplifying the case only slightly to say that Trudeau believed that parliament and central government institutions were the only legitimate definers of the national interest, whereas Clark and Mulroney perceived Canada to be a 'community of communities,' in which the collective goals were appropriately set by the joint efforts of the federal and provincial governments. It is no accident at all that the Meech Lake Accord provided for obligatory annual meetings of first ministers, thereby attempting to institutionalize federal/provincial summits as integral parts of Canada's machinery of government - neither entirely federal, nor fully provincial.

These philosophical and constitutional underpinnings have encouraged numerous changes in decision- and policy-making and in policy implementation. Very few undertakings by the Ottawa government can now be designed and carried out without

extensive consultation and co-operation with the provinces. By the same token, numerous initiatives of the provinces require some form of federal aid.

Two consequences follow, insofar as the country's international and transnational relations are concerned. In the first place, the Ottawa government cannot always make unilateral commitments and may have to consult the provinces before engaging in certain overseas endeavours. Secondly, individual provinces may go it alone and negotiate cultural or economic agreements with public and private institutions abroad, quite independently of the policies or interests of other provinces or of Ottawa.

Insofar as interactions between Britain and Canada are concerned, therefore, one must look beyond the activities of our respective High Commissioners and their world. The quasidiplomatic, economic, and cultural missions and initiatives of the provinces are an integral part and parcel of Canada's international presence. For geographic and cultural reasons, as well as those related to its sheer size and economic strength, Ontario is most likely to be deeply involved in maintaining old and fashioning new ties with the United Kingdom. The province is anxious to offset the fact that nearly 90 per cent of its trade is with the United States and only 5 per cent with Europe. The latter is, for a number of reasons, more attractive to Ontario as a potential trading partner than the Pacific rim. [2]

There is another aspect of the changing nature of Canadian federalism which could affect the country's capability to take new initiatives in its relations with other states. Its effects are subtle and sometimes hard to pinpoint. A more porous federalism, taking into account the interests of various regions as championed by the provincial governments, results in a somewhat cumbersome decision-making process, particularly during the period of transition in which the new approach and consequent arrangements are still developing. A government whose hands are not noticeably restrained is capable of more incisive action than one obliged to consult extensively before it can move. A certain *immobilisme* may result, slowing the rate of change. On the other hand, the diversification of decision-making sites, resulting from the greater scope afforded the provinces, may lead to more flexibility, experimentation and innovation. This tendency is enhanced by the smaller and still less bureaucratized government apparatus of the provinces and by 'competitive federalism' in which the provinces compete with one another and/or with Ottawa in seeking to find solutions to emerging problems.

Finally, it is possible, as has been indicated above, that Canada may actually break up into smaller units, in which case it might well become a North American Benelux with the Atlantic provinces eventually joining the USA.

5) Public/private sector realignments

Diversification in who speaks for Canadians and in the sites where this occurs does not result only from changes in Canadian federalism. It is also influenced by the realignment of responsibilities between the public and the private sectors.

Canada has not been immune to the privatizing and anti-statist tendencies evident in most parts of the world, and particularly in Reagan's America and Thatcher's Britain. Moves towards deregulation and other reductions in state activity were initiated during Trudeau's last term of office but did not become pronounced until the Mulroney government came to power. A fairly aggressive program of pruning public enterprises was initiated by the Tories, resulting in the sale of Teleglobe Canada, the

overseas telephone monopoly; the Canada Development Corporation, a holding company with extensive mine properties; Air Canada, the national airline; a couple of aircraft manufacturers; and a number of smaller enterprises. VIA Rail, the national passenger train service was cut in half and consideration is being given to privatizing the post office. An Office of Privatization and Regulatory Affairs was established under a Minister of State and extensive deregulatory initiatives launched in a variety of fields, including energy, transport, foreign investment, and financial institutions.

These measures reflect, among other things, the Tories' desire to scale down government, reduce the deficit, and enhance competition. It is too soon to assess the long-term consequences of these initiatives, but there is no doubt that competition is increasing in a number of sectors of the economy, and that in some areas government is shrinking. Compared to the British Tories' performance as privatizers, however, their Canadian cousins are milquetoastian amateurs. The reasons for the reticence lie in part in Canada's proximity to and dependence on the United States, which imposes a greater need for state action, and in the fact that Canadian public opinion is, to say the least, ambivalent about its trust in the private sector. Furthermore, Brian Mulroney is not Margaret Thatcher.

Still, transfers have occurred in activities from the public to the private domain and competition in several fields has increased. This has led to at least two consequences relevant to the concerns of this paper. Governments are less able to direct the behaviour of certain economic enterprises, and important economic players are subject to takeovers and to being integrated in the emerging global network of super-colossal multinational enterprises. This means that it is becoming more difficult for transnational contacts to be planned or guided by governments responding to political or bureaucratic pressures. Increasingly, dictates of the market rather than the consciously articulated preferences of accountable politicians may determine the scope and nature of economic relations between enterprises in their countries and those abroad. Although some control or suasion will be possible, of course, their scope in most instances is likely to be limited.

Specifically, economic contacts or co-operation may increase or shrink between two countries - say Canada and the United Kingdom - following privatization and deregulation, and the possible acquisition of formerly public enterprises by giant world-wide operating or holding companies. But the nature and scope of such changes in relationships among countries may either be beyond the reach of governments or at least more difficult for them to influence than heretofore. Economic considerations alone, rather than other factors, including political, social or cultural aspects of the national interest, may determine what is done.

The consequences sketched here may follow from the deregulatory and privatizing policies pursued by the Mulroney government but there is now some doubt of how far Canada is likely to travel in the future along the path reducing the scope and reach of government. There is a tendency to counterbalance privatization by strengthening regulation, thereby ensuring that the public interest is protected. Thus the original Conservative intention to move boldly and effectively in deregulating and in reducing the scope of government fizzled. The much heralded Nielsen Task Force on Program Review, appointed only one day after the first Mulroney government was sworn in, was largely ineffectual. [3] Similarly, the resolve by the Saskatchewan government to launch a massive privatization program was halted because of the strong public opposition to it. [4] As part of the legislation privatizing Teleglobe Canada, the Canadian Radiotelevision and Telecommunications Commission was charged with the

task of regulating the newly created private company. The government's overhaul of the tax system will require the services of thousands of additional public servants, and so on. What is occurring therefore; is that a new realignment and a new pattern of public/private responsibilities are emerging in the ownership and control of economic enterprises. A significant degree of globalization is almost certain to take place, perhaps following the precedent emerging in the automobile industry. It will have some of the consequences sketched above. But other developments will also occur, creating conditions different from those prevailing at present, but ones whose exact nature cannot yet be divined.

In speculating about the probable future relationship between Canada and Britain it is nevertheless well to expect that the respective roles of governments and private firms may be quite different from what they are now. Business and cultural organizations, for instance, are likely to play a more prominent role, but this role is, at least on the Canadian side, likely to be monitored and possibly steered to some extent by public agencies of one kind or another.

6) Shifts in Values

It is usually taken for granted that when governments move to what is seen as the right of the political spectrum, this occurs in response to a shift in public preferences. The electorate is thought to desire or at least approve the pursuit of new priorities because it has become more conservative. The popularity and re-election of President Reagan was thus often read as an indication that American public opinion had undergone a major transformation from that prevailing during the days of Democratic hegemony. A closer look at opinion polls, congressional elections, and other indicators reveals, however, that no significant change in ideology has in fact occurred. Similarly, attempts by the Mulroney government to 'roll back' the state and to develop programs which are particularly favourable to the business community, are often interpreted as indicating that public opinion in Canada has changed and become more right wing than was the case when the Liberals were in office.

This view assumes that Canadian voters cast their ballots for ideological or at least programmatic reasons, for which there is no evidence. The argument also overlooks the fact that in the last election, for instance, 57 percent of those who voted supported candidates opposed to the Conservatives, and that another 25 percent of those inscribed on the voters' list did not vote at all. This means that fewer than one in three eligible voters re-elected the Mulroney government.

Poll data, though also posing problems in interpretation, nevertheless provide better evidence of public attitudes to government and the world of private enterprise. They indicate that Canadian views have undergone some interesting changes in the recent past. During the recession of the early nineteen eighties, the private sector was seen as being a more appropriate vehicle than the government for managing industrial growth and development in Canada. But since then, confidence in the private sector has declined and faith in the government has increased. Interesting distinctions are also drawn between what each does best. Thus two-thirds of a sample surveyed in September 1988 thought that private industry can create more jobs than government, but 58 per cent believed that the government was better able to protect existing jobs. More people, 56 per cent, thought, at the same time, that private industry is better suited to promote economic growth than the government.

But a completely different picture emerges when one considers other dimensions on which business and government are rated. More than three-quarters of the September 1988 sample thought that the government best protects consumers - only 22 per cent finding that private industry did. Even more striking differences in perception emerge with respect to a question dealing with who best protects the national interest: government, 83 per cent; private industry, 15 per cent.

More specifically, in relation to government involvement with business, a majority of those sampled thought that there has been an increase, and a majority of these thought that this was a salutary development. There is some indication that this approval reflects not so much a strong interventionist zeal but a sense that the forms of public influence have become more appropriate than in the past. A majority believe that government should facilitate the work of the private sector, rather than that it should hamstring its operations. In doing so, however, it is expected that it will balance the interests of the business community with the public interest. [5]

An intriguing question, but one we can only sketch here without seriously pursuing it, asks whether government shifts in policy follow changes in public opinion, or whether the latter alters as the result of governments having introduced certain policy changes. There is reason to believe that the pro-business stance of the Mulroney government was not sought by significant sections of the public but that once introduced, increasing support developed for them. [6] Intriguing implications can be drawn from this observation: first, that the Mulroney government provided leadership which did somewhat alter attitudes towards public issues; second, that it is possible in Canada for government ultimately to win support for policies which had previously not been favoured or thought of. We shall return to this point later.

What other shifts in the prevailing ideology or values are occurring in the substratum of Canadian political life? Three are worthy of note in the present context: immigration and its consequences for racial attitudes, the environment, and Americanization.

We have seen above that the demographic composition of Canada has undergone important changes and that we are now in what is usually perceived as a multicultural phase. The influx of so-called visible minorities is, alas, accompanied by indications of hostility and some racism. This, not surprisingly, is most evident in areas where the presence of foreign individuals or interests is particularly obtrusive. Thus Asian, and notably Hong Kongese large-scale acquisition of real estate and subsequent development in Vancouver is creating a strong, and for Canada, atypical backlash. Similar hostility, although not as pronounced, is present in some of the eastern metropolitan areas as well.

Pressure from potential immigrants on Canada will continue to increase, as Asian, Central and South American and other countries continue their population explosion. It remains to be seen how the mainstream of Canadian society will react. The record so far is, on the whole, rather good but there is certainly no room for complacency. It is possible that as newcomers attempt to enter Canada in ever larger numbers, possibly illegally, a strong reaction will set in. Recourse to measures threatening civil liberties, calls for strong-arm ways to protect our porous borders, and temptations to adopt a garrison mentality may encourage authoritarianism and the emergence of right-wing, racist political movements and parties. The nucleus of these already exists.

Opinion polls surprised the federal parties during the last election by unveiling serious and widespread anxiety over issues relating to the environment. Canadians have in the past been wildly profligate and uncaring about the despoliation of their

lavish land and of the globe, but public opinion is at last becoming aroused over the ravages being inflicted on the environment. This is a development which, although it has not yet been seriously politicized, may, in due course, affect parties, policies, and our ties with other countries.

Few, if any, countries are as absorbed in speculation about their national identity as Canada. Its nature, vigour and viability are subjects of continuous debate, particularly among intellectuals and the cultural community. Among the features of the Free Trade Agreement with the United States which attracted great attention was, therefore, how the new arrangements would affect Canada's cultural life and through it what is usually referred to as its cultural identity. The jury is, of course, still out on this, but the question deeply concerns a vocal and articulate minority which, among other things, has easy and effective access to the media.

It is therefore very likely that as Canada's economic ties with the United States become closer, and as these links enhance the presence of America in Canada's daily life and consciousness, growing attention will be given by the media and the cultural community to the consequences for Canadian minds and the definition of the Canadian nationality. It is plausible to expect that if new Americanizing cultural tendencies are detected, strong objection will be expressed and countervailing measures will be sought and discussed. Paradoxically, therefore, the Free Trade Agreement may actually strengthen certain forms of Canadian nationalism and may encourage efforts to seek contacts with non-American countries so as to offset the inevitable pressures emanating from the United States.

If this occurs, English Canada may well attempt to increase its cultural exchanges with Britain and to return at least a little to the *status quo ante bellum*, in which Canadian cultural life displayed close and lively affinity to that of 'the mother country.' Similarly, the possibly growing concern over non-white immigration, and with environmental issues, may incite important groups of Canadians to collaborate with those abroad who experience or have experienced similar problems and from whose past accomplishments or failures we could learn.

Britain is a particularly attractive possibility in this context, for historical, linguistic, geographical and cultural reasons. The adjustments of post Thatcher Britain are likely to be scrutinized with special interest.

Conclusion

Since the end of the Second World War, domestic developments in Britain and Canada, as well as changes elsewhere in the world, led to a quite remarkable attenuation of the ties that had bound the two communities so closely together and that had previously nourished a vigorous and massive number of political, economic, social and cultural exchanges. Post-war immigration from Britain to what was then still the Dominion strengthened the large and powerful contingent of Canadians of British origin or ancestry who had been the major formative force in the birth and growth of what is now Canada. But this torrent turned into a trickle and many of the other formerly close contacts also fell by the wayside. Bilingualism and biculturalism took centre stage, and then the still expanding emphasis on multiculturalism made itself felt. The economic, military and cultural clout of the United States came to permeate Canada's consciousness and to dominate policies pursued by Canadian firms and governments. And although there are still myriads of personal ties forging private

links, the official and formal relationship as measured by statisticians and accountants, constitutional lawyers and immigration departments are now close to insignificant.

The monarchy still provides a tie, of course, although its appeal is not equally powerful throughout the land. Geographic appellations, the names of streets and buildings, time-honoured political institutions and conventions, many provincial emblems, the books taught in schools; holiday and study trips of large numbers of Canadians, 'Yes, Prime Minister,' some eating habits, and many other elements of private life are among the numerous other reminders and signposts guiding Canadian thoughts towards the British Isles and to the Irish, Scots, Welsh and English roots of a very large number of Canadians. It is even possible, although evidence on the subject is scanty, that the relative decline in members and influence of Canadians of British origin may induce them to pursue the connection with the 'motherland' more assiduously than when its importance was taken for granted.

But as the foregoing discussion of various aspects of the political scene indicates, there may be attractive incentives for Canada to extend its bilateral relations with the United Kingdom which have nothing or relatively little to do with the traditional kinships and historical antecedents which have bound the two polities together in the past.

As we have seen, some hard-headed realities of the Canadian situation indicate that a rapprochement, the forging of new kinds of mutually beneficial arrangements, may be desirable quite apart from the sentimental yearnings of Canadians of British descent. Governments, firms and individuals might learn from one another's experiences or engage in commerce or in enriching professional and cultural associations. On the other hand, the growing importance in Canada of people whose origins are not in Britain and not in Europe may direct attention and links towards the Pacific rim, the West Indies, Central and South America or Africa and other parts of Asia. The highly probable advent of a major constitutional donnybrook, to borrow an image bequeathed us by the Irish, will also focus everyone's mind on the domestic scene and may discourage the pursuit of bilateral experiments.

But two realities confronting Canada provide a mighty motive for exploring what measures might be taken, obviously not to revive the old relationship, but to concentrate on devising a new one. There is the need to counterbalance the inevitably growing impact of the United States, and the related incentive to become involved with post 92 Europe. Britain could be a congenial gateway to Europe, one in which Canada's past experiences may prove helpful.

As noted above, the overtures and follow ups in forging new mutually satisfactory initiatives, if they are made, will result more than heretofore from private initiatives, although the role of government cannot be dismissed. It is not only the federal government that would become involved but also, and perhaps particularly, the provinces. A critical question is how likely it is that this will be done. Whoever established the principle that it is not a good idea to place all one's eggs in one basket (it may surprise you that my Bartlett's Familiar Quotations says that it was Cervantes in Don Quixote) has told us how profoundly desirable it is that we should free ourselves of too exclusive a dependence on one trading block and on one culture. There is, therefore a potent self-interest dictating that we should try. But will we?

For good or evil, Canadians are not Poles, Lebanese or even Americans. We are engagingly laid back, accommodating, and nice. We tend to follow the wind rather than to buck it. It will, therefore be a lot easier to drift along, benefiting from whatever the North-American continent has to offer without risking the hardship, the

discomfort, and the danger of humiliation involved in a European and a British overture.

The decisions, as I have suggested repeatedly above will be taken not only by governments but particularly by private individuals, associations, and enterprises. Some will be made by governments as well, but they may no longer be the principal players. Or will they? In my earlier discussion of shifts in values I noted that the Mulroney government may have provided important leadership in shaping public attitudes towards the appropriate responsibilities of business and government. Government can influence what the citizenry believe and it can provide leadership. But it must have the will to do so, and the courage to brave initial hostility in the pursuit of what it holds to be desirable.

We may wish to consider whether the Mulroney government or its possible successors are likely to display the needed will and courage. We should also address the question of whether, how, when, and to what extent the private sector in its infinite manifestations, can be expected to embark on a countervailing course - countervailing to the United States -based on the bilateral relationship between Canada and Britain, and Canada and Europe. And we must complete the picture by matching the Canadian dimension to that of the United Kingdom. What, if anything, is there in a new relationship for Britain?

Notes

1. Canadian Social Trends, Autumn 1986, Spring 1989, Summer 1989, Autumn 1989.
2. R. Mackie, 'Kwinter wants Ontario to look to Europe, Asia for more trade', Globe and Mail, 10 October 1989.
3. V. Seymour Wilson, 'What legacy? The Neilson Task Force Program Review,' in R. A. Graham (ed.) How Ottawa Spends 1988/89 (Ottawa:Carleton University Press Inc.; 1988) pp. 23-47.
4. G. York, 'Devine shuffles cabinet, rethinks privatization', Globe and Mail, 4 October 1989.
5. Decima Quarterly Report, Fall 1988.
6. This interpretation was suggested in a conversation by Michael Adams of the Environics Research Group Limited, on the basis of surveys conducted by his organization.

PART III
GLOBAL PERSPECTIVES:
EAST/WEST, WEST/WEST
AND NORTH/SOUTH



4 The Transformation of East-West Relations

Paul Marantz

This paper discusses the nature and significance of some of the rapid changes that are currently reshaping East-West relations. It is divided into three sections: (1) The Transformation of Soviet Foreign Policy; (2) The Western Response; and (3) Canada and East-West Relations.

The Transformation of Soviet Foreign Policy

The conflict between the Soviet Union and the Western world has now been with us in one form or another for almost three quarters of a century. From time to time, tensions have eased and hopes have arisen that perhaps the Cold War could be ended. But each and every time, the outstanding issues have resisted settlement, and these hopes have been dashed.

While it has, on occasion, been possible to treat some of the symptoms of the Cold War—such as the absence of summit meetings or low levels of trade—up until now it has not been possible to address the root causes. As a result, little sustained progress has been made in healing the breach between East and West.

Now we have once again entered a time of high expectations. Learned journals and the popular media are full of optimism about 'the revolution in Soviet foreign policy,' 'the death of Communism,' 'an end to the Cold War,' and even, in some quarters, 'an end to History.' Are these high hopes justified? This time, are the causes rather than the symptoms of the Cold War being addressed?

The only way of answering these questions is by stepping back from the clamour of today's headlines and asking: What have been the fundamental causes of the Cold War? Do the revolutionary changes presently underway in the Soviet Union address these fundamental causes of East-West conflict?

At the risk of simplifying a very complex interactive process, this paper advances the following propositions: First, the root cause of the Cold War has been the confrontational stance toward the existing international system that was adopted by the Soviet leadership in Lenin's day and maintained with only relatively minor modifications right up to the mid-1980s. Second, this confrontational stance is now being rapidly eroded due to the conceptual revolution that is taking place in the Soviet Union. Fundamental changes are occurring in how the Soviet leadership perceives, conceptualizes, and evaluates the international system and Moscow's role in it. Third, as a consequence of these changes, an unprecedented opportunity exists for a fundamental breakthrough in East-West relations.

In an attempt to substantiate these propositions, three key factors responsible for the Soviet Union's confrontational stance toward the West are examined.

The three key factors are: (1) Marxist-Leninist ideology. This ideology has been a major factor shaping the Soviet outlook on world affairs. In particular, the official ideology has caused the Soviet leadership to see the capitalist world as being implacably hostile to the Soviet Union, and it has bred a sense of historical mission that has impelled Moscow to work for the demise of capitalism and the triumph of Communism throughout the world. (2) The Soviet sense of great-power entitlement. Since the mid-1950s, Soviet leaders have believed that the U.S.S.R., as a newly arrived superpower, is fully entitled to a greatly expanded share of world power. (3) The highly authoritarian nature of the Soviet political system. This system, which has been characterized by such features as excessive secrecy, the intense fear of foreign penetration, and the deep mistrust of independent individual activity, has had a strongly negative impact on the nature of East-West relations. However, in each of the above three areas, far-reaching changes are taking place.

Over the years, there have been many overly optimistic predictions of the death of ideology in the Soviet Union. We should not repeat past mistakes and assume that the official ideology has now ceased to be a factor colouring the Soviet leadership's view of the world. But the nature of the ideology is changing in several important ways. For example, the traditional class-based interpretation of international politics is being greatly de-emphasized. There are a number of signs of this, such as Gorbachev's assertion that universal human interests take priority over class interests and the official repudiation of the definition of peaceful coexistence as a 'form of the class struggle,' which had been the reigning orthodoxy for twenty-five years.

Ideological change is also manifested in the new emphasis on what the East and the West share in common rather than on what divides them. This is most apparent in the newly placed stress on such themes as the common interest in international security, the world's growing economic interdependence, and the shared nature of the threat from environmental deterioration. An even more striking manifestation of the diminution of the traditional tendency to see the world in we-they terms and to represent every aspect of the Soviet system as being superior to the capitalist system is the wholesale borrowing of previously scorned Western concepts such as 'pluralism,' 'civil society,' 'checks and balances,' 'the rule of law,' and even 'parliamentary government.'

Another important development in the area of ideology is that a new understanding of the Soviet Union's external environment is gaining ground. Previously, Western hostility toward the Soviet Union was viewed as a fundamental and immutable feature of international politics. This hostility was seen as deriving from the class interests of the ruling bourgeoisie, and hence it was believed that there was little that the Soviet Union could do to moderate it.

Now it is recognized that the foreign policy of the West is driven not by the narrow class interests of the ruling elite but by the legitimate need that all countries have to maintain security and protect the national interest. Increasingly, it is being acknowledged that in the past the Soviet Union was opposed by Western nations not because it was a socialist state, but because of its threatening behavior: its expansionism, its contempt for the interests of other states, its unpredictability, and its brutality toward its own citizens. The obvious lesson to be drawn from this line of analysis is not lost upon Soviet policy-makers: if the Soviet Union modifies its own conduct and gives the West less to fear, it will face a far more benign world.

The abandonment of previous claims of Soviet infallibility constitutes another important change in the official ideology. Soviet foreign policy, which previously had been almost totally exempt from domestic criticism, is now severely criticized. For example, an article in the Soviet journal International Affairs described Soviet foreign policy under Stalin in the following terms:

The natural need to defend the country against armed incursions from without and concern over internal stability turned into suspicion and dislike of everything foreign, into spy-mania, the psychosis of secrecy and ideological intolerance. International confidence was hardly promoted by the crimes committed by Stalin's regime, its attempts to justify mass repressions with references to the capitalist environment, and the theses of the exacerbation of class struggle both within the country and in the international arena, which, incidentally, actually scuttled the formation of a broad anti-fascist front.[1]

In the same self-critical vein, an article in Komsomolskaya Pravda stated:

We have gotten used to phrases like: 'We are mankind's vanguard'; 'The future belongs to us'; 'We will be victorious on a world historical scale.' But have you tried to put yourself in the position of those who, in our opinion, are in the rear guard, to whom the future does not belong, and who, according to our viewpoint, are doomed to depart from the historical arena, doomed to perish? What must their attitude toward us be? It is no accident that people in the West have formed an impression of the USSR as being a country that seeks to conquer the world.... In order to change people's opinion about us we must change ourselves.[2]

This increasingly explicit self-criticism of the Soviet Union's past foreign policy is an especially significant development for two reasons. First, it is unprecedented. Nothing like this has ever been seen before in the Soviet Union. It is one of the clearest signs we have that the present thaw in East-West relations is very different from the shallow and short-lived detentes of the past. Second, this self-criticism is crucial because it creates the basis for a fundamental rethinking of Moscow's foreign policy by Soviet policy-makers. A critical re-examination of the past is the essential prerequisite for the creation of a new foreign policy.

These ideological changes are of critical importance because they have led to a sharp reduction in the Soviet leadership's sense of revolutionary mission. In the past, Soviet foreign policy was driven by the belief that Soviet-style socialism represented a higher and more just form of social organization than capitalism, and that consequently the Soviet Union had an inescapable revolutionary obligation to facilitate the movement of history toward socialism throughout the world.

Now Gorbachev has declared that the Soviet system cannot be regarded as a universally valid model for socialism and that, in fact, no such model exists. There is a growing awareness that the Soviet Union, which is in the midst of a deep crisis, does not even have the answers for its own problems, let alone for those of other countries. With a humility that was absent in the past, it is admitted that the Soviet Union is backward in many aspects of its political and economic system and that it has much to learn from other countries. Even the very idea that history is clearly moving along a preordained path in the direction of socialism is being questioned. The collapse of the Communist regimes of Eastern Europe in the autumn of 1989 destroyed any lingering illusions that the Soviet system constituted a higher form of social organization that was destined to spread throughout the world.

In short, we are witnessing an historic transformation of Marxism-Leninism. As a consequence of this, one of the major factors that fuelled past Soviet hostility toward the West is diminishing.

The second key area in which important changes are occurring is in the Soviet leadership's conception of its role and status in the international system. Under Khrushchev and Brezhnev, Soviet policy-makers saw their country as a newly-arrived superpower. They believed that the Soviet Union was fully entitled to an expanding share of worldwide power and influence. The Soviet Foreign Minister, Andrei Gromyko, reflected this sentiment when he proudly declared at the Twenty-Fourth Party Congress in 1971: 'Today there is no question of any importance which can be decided without the Soviet Union or in opposition to it.'^[3] Given the attainment of nuclear parity with the United States by the early 1970s, Moscow laid claim to what one Soviet official privately termed an 'equal right to meddle' in the Third World.^[4]

There is strong evidence that Soviet perspectives are changing. There is a growing willingness in Moscow to accept a more modest role in international affairs. There are several components to this shift of perspective.

First, there is a growing preoccupation with the Soviet Union's domestic problems. As a result, the priority that had previously been accorded international affairs is diminishing. Moreover, unlike past periods of retrenchment, the Soviet leadership now realizes that the problems that the country faces are truly enormous and that there will be no 'quick fix'; it will be decades before they are resolved. For example, it has recently been publicly admitted that: the Soviet Union ranks no better than fiftieth in the world in terms of per capita consumption; more people live in poverty in the Soviet Union than in the United States; the Soviet health care system, long the pride of the country, is in scandalous condition; and the Soviet budget deficit is far worse than that of the United States and, as a result, threatens to destabilize the entire economy.

In the face of these enormous problems, it is recognized that there are real constraints on what the Soviet Union can attempt to do abroad. The Soviet Union is entering a new era of limits in which Soviet expectations are being scaled down. In the words of the Foreign Minister, Eduard Shevardnadze:

In the times before restructuring 'counting kopecks' when making decisions in the political arena (I include defence issues here) was regarded as almost disgraceful. Foreign policy was a thing unto itself.... The domestic civilian economy got what was left over after foreign economic and defence measures were taken care of. We directly ignored the fact that in the international and defence spheres, there could be things which our country simply could not afford.^[5]

A prominent Soviet commentator has stated: 'We are called a 'superpower,' but in many respects we are a poor and developing superpower.'[6]

A second aspect of this shift to a less imperious role in international affairs is the Soviet Union's reappraisal of the Third World. Increasingly, Soviet commentators are arguing that previous expectations about a rapid transition to socialism in the Third World were totally unrealistic, since most countries are simply not ready for socialism. As one Soviet official phrased it, in a formulation that would have been considered treasonous a few years ago, the developing countries 'are suffering not so much from capitalism as from its shortage.'[7] Soviet analysts also point out that the emergence of self-proclaimed socialist regimes in some of the poorest countries of the world does little to enhance Soviet security and may in fact diminish it by absorbing badly needed Soviet resources and by heightening international tension.

Thirdly, as part of the 'new thinking,' a new concept of international security is emerging in the Soviet Union, one that rejects past notions that the more military might the Soviet Union has, the better off it is. The new conception of international security places more emphasis on the economic and political dimensions of power and stresses the need for multinational cooperation rather than self-centered unilateralism. As Shevardnadze has argued—now the concept of power and security

is something entirely different from what it was during the thirties when we sang: 'The Red Army is stronger than all.' Can a state be strong and secure when its economy fails, fundamental sciences are in a state of stagnation, agriculture can in no way get on its feet, and the citizens are suffering from a shortage of literally everything?[8]

An agonizing reappraisal of the fundamental tenets of Soviet foreign policy is underway in the Soviet Union. The fact that reformers in the Soviet Union are attacking the Soviet Union's past great-power messianism and that they are calling for a rejection of obsolete conceptions of the national interest is a very positive sign.

The third area where important changes are taking place is in the nature of the Soviet political system. For years, the West had to deal with a country in which the dominant political characteristics were all-pervasive secrecy, belligerent self-righteousness, morbid insecurity, an acute fear of foreign penetration, and the prohibition of independent societal activity. Now all this is changing. It is especially important that it is not just Soviet foreign policy that is being moderated—since this occurred for temporary periods on several previous occasions—but that this time the very nature of the Soviet domestic political system is being transformed.

As a result, the West has much less to fear, finds much less that is objectionable in Soviet political practices, and can more easily work with Soviet officials to advance common objectives.

There is much less to fear because we have a better understanding of the constraints under which Soviet policy-makers labour. Previous Western conceptions of the Soviet Union as a monolithic and totalitarian system have lost their relevance. The Soviet regime is increasingly constrained by acute economic problems, growing ethnic cleavages, an awakening public opinion, and the recognition of the need for a less personalistic and secretive approach to decision-making. As a result, both the reality of the Soviet threat and the West's anxieties about that threat are lessening.

There is also less to object to in Soviet domestic political practices. In the past, Western repugnance for the trampling of human rights in the Soviet Union was one of the major factors colouring East-West relations. While the Soviet Union is still not

a constitutional democracy, it is now much less oppressive than it was even five years ago. Religious freedom is gaining ground, it is easier for Soviet citizens to travel abroad or to emigrate, and there is greater freedom for people to express their views and to join independent organizations.

Previously, Western analysts saw the top Party leadership in the Soviet Union as constituting the major obstacle to domestic reform. East-West relations were complicated by Western criticism of Soviet human rights abuses and by occasional Western efforts to promote a modicum of liberalization within the Soviet Union. Now there is more concern with finding ways to help Gorbachev than to pressure him, since Gorbachev is viewed as a committed reformer battling strong internal resistance to change. Initial skepticism about whether Gorbachev was a genuine reformer has been replaced by a widespread fear in the West that if Gorbachev were removed from the Soviet leadership, this would lead either to a hardening of Soviet policy or to chaos, neither of which are regarded as serving the interests of the Soviet people and international stability.

Lastly, recent changes within the Soviet Union make it much easier for the West to work with Moscow. The Soviets are re-examining and modifying many of their past policies. The fear of foreign penetration is lessening. Secrecy is diminishing. Candid and fruitful discussions are now possible with Soviet policy-makers. On-site inspection and confidence-building measures, which are so vital to arms control, have become common occurrences. For decades the Soviet regime used the image of a hostile external world to legitimize its harsh domestic repression, but it no longer relies upon this dangerous myth for domestic legitimization.

Indeed, in an interesting reversal of past arguments, Soviet reformers now contend that Soviet security can be ensured only by domestic liberalization and greater respect for human rights, since only in this fashion can Western mistrust of the Soviet Union be overcome. Perhaps even more than his predecessors, Gorbachev has a desperate need for foreign success to bolster his power, but foreign success is defined in terms of arms control and expanded East-West trade and not as the triumph of Communism beyond the Soviet Union's borders.

From the perspective of the West, the Cold War revolved around five dominant concerns: the Soviet threat to Western Europe, the Soviet military build-up and the ensuing arms race, Soviet expansionism in the Third World, Soviet domination over Eastern Europe, and the repressive nature of the Soviet political system. Despite decades of arduous negotiation and the occasional achievement of temporary periods of detente, remarkably little progress was made in any of these areas during the entire postwar period. The Anti-Ballistic Missile Treaty and the SALT agreements did little to curb the arms race, and the signing in Helsinki in 1975 of the Final Act of the Conference on Security and Cooperation in Europe left Soviet repression unaltered. For the most part, East-West relations in 1985, at the time that Gorbachev became General Secretary, were little better than they had been in 1955 or even 1925.

The primary significance of the revolution sweeping the Soviet Union is that the conceptual universe of the Soviet leadership is being altered. The fundamental assumptions, perceptions, and goals of Soviet policy-makers are being rethought. As a result, for the first time in the seven-decade history of East-West confrontation, it is the fundamental causes rather than the symptoms of the Cold War that are being addressed.

Gorbachev is reappraising the significance of military power in the nuclear age and reassessing the cost for the Soviet Union of its military burdens. The collapse of Soviet power in Eastern Europe has all but eliminated the Soviet military threat to

Western Europe. Soviet policy-makers are willing to take concrete steps leading to the creation of a military establishment based upon 'non-offensive defence' to provide additional reassurance to the West and to reduce Soviet military expenditures. Soviet interest in Third World expansion has declined dramatically. The nations of Eastern Europe have regained their independence. Within the Soviet Union there has been a sharp reduction in political repression, and tolerance for autonomous political activity is growing. Thus, recent progress in all five of the core areas of the Cold War has been truly enormous. Although, there are bound to be some rough patches ahead, we can nonetheless speak of the end of the Cold War and the beginning of a new era in East-West relations, one that is fundamentally different from anything that has existed since 1917.

The Western Response

George Kennan, in his famous article published in 1947, 'The Sources of Soviet Conduct,' argued that the West should follow a policy of firm and patient containment of the Soviet Union. Such a policy, he suggested, would eventually lead to 'either the breakup or the gradual mellowing of Soviet power.'^[9] Now some forty years later—a much longer span of time than Kennan had originally thought necessary—both the mellowing and the break-up of the Soviet empire have become real possibilities, but Western policymakers have been unsure how to respond.

Western analysts were slow to appreciate the full significance of the revolution in Soviet domestic and foreign policy unleashed by Gorbachev. At the time that Gorbachev became General Secretary in 1985, most observers did not expect him to be a bold reformer, and when the first signs of reformism began to appear, they were generally viewed as representing little more than cosmetic tinkering with the system. Reflecting this wide-spread skepticism, Henry Kissinger and Cyrus Vance, as late as mid-1988, dismissed the growing battles between Soviet reformers and conservatives with the assertion that 'what divides them is, above all, the method of strengthening the Soviet Union.'^[10] At that time, it was widely assumed that the success of Gorbachev's reform program might actually intensify the danger for the West because it could lead to an unreconstructed Soviet Union which was more powerful and energetic in pursuing its interests.

A year later, by the summer of 1989, the evidence that truly fundamental change was taking place in the Soviet Union was undeniable. Moscow stood by while a government led by Solidarity was installed in Poland, Hungary began dismantling its oneparty system, and tens of thousands of East Germans fled to the West. Internally, the Soviet Union was shaken by massive demonstrations, labour unrest, and insistent demands for national autonomy in the non-Russian republics. Soviet elections in early 1989 led to the humiliating defeat of many Communist Party functionaries and gave birth to a reconstituted Supreme Soviet which is gaining power at the expense of the Party apparatus. The process of change has been far faster and deeper than even the most optimistic observer would have dared to believe possible only a few years ago. This has led to a major shift in the debate among Western policy-makers. No longer are people asking whether Gorbachev's reforms are 'for real,' but rather the key questions are: Will the Soviet Union disintegrate? Will Gorbachev be able to remain in power? Is there anything that the West should be doing to help him? How can the West take advantage of the historic opportunities that loom before us in order to manage a peaceful transition to a new international order?

Some critics of Western policy toward the Soviet Union have argued that more should be done to help Gorbachev. In their view, the West should move faster on arms control so that Gorbachev can achieve some of the economic pay-off and symbolic success that he needs to shore up his shaky domestic power base. It is argued that Western leaders should make it clear through their speeches and policy declarations that they genuinely welcome the advent of a more harmonious international order and that the fears of Soviet conservatives that the West will exploit the Soviet Union's current disarray so as to undermine its security are unjustified.

On the other hand, in defence of Western policy, it can be noted that there are sound reasons not to rush ahead too quickly. Uncertainties abound. Growing ethnic unrest and economic discontent may derail the reform process in the Soviet Union. Moreover, while we need to avoid nostalgia for the Cold War and any romanticizing of the merits of the bipolar international order of recent decades, Western policy-makers have good reason to be nervous about too sudden a leap into an unknown future. At present, the basic features of a post-Cold War international order can barely be discerned: How will German reunification be harmonized with the security concerns of the Soviet Union and other European nations? What will be the future role of NATO? What form will American ties to the new Europe take? To what extent will ethnic conflicts and historic antagonisms re-emerge in Eastern Europe?

The US Administration is moving cautiously. President Bush is determined not to be rushed and not to do something 'dumb,' a concern we should welcome considering the mercurial nature of the American response to the Soviet Union in the past. Moreover, even if the pace is slow, US policy clearly is responding to the ferment engulfing the Communist world. The talks on chemical weapons, conventional arms, and strategic weaponry are moving ahead. American policy pronouncements have adopted a cordial tone welcoming Gorbachev's reforms and signalling that the U.S. will not attempt to exploit Baltic or East European nationalism to the detriment of the Soviet Union. President Bush may have done little to provide imaginative and visionary leadership for the Western alliance, and he has not actively and creatively sought to channel the process of change sweeping Eastern Europe, but neither is he attempting to impede it. Washington's caution and pragmatism leave much room for the constructive initiatives of the other members of the Western alliance.

Canada and East-West Relations: Interests and Constraints

Although the members of the Atlantic Alliance are drawn together by common security interests and by strong political, economic, and cultural ties, they are also pulled in different directions by their diverging interests, perspectives, and geographical situations. Canadian foreign policy toward the Soviet Union and East-West relations has been shaped and constrained by six dominant concerns: (1) the perception, which Canada has shared with the other members of NATO during the postwar period, that the Soviet Union constitutes the central threat to Western security; (2) the recognition of the critical importance of good relations with the United States, Canada's powerful neighbour on the North American continent; (3) the belief that Canada, even though a firm partner in NATO, can still serve as a conciliator and as a bridge between East and West, especially at times of high tension when direct superpower contact is minimal; (4) the desire to promote trade with the Soviet Union, especially in the important area of grain; (5) the concerns of Canadian public opinion and, in particular, the skepticism about Moscow's intentions that exists

among many Canadians of Soviet and East European origin who number approximately 10 per cent of the population; (6) the growing interest in ensuring Canadian sovereignty in the Arctic and in promoting Arctic cooperation between Canada and the Soviet Union.[11]

As a result of these conflicting concerns, Canadian policy on East-West issues tends to be what might be termed 'cautiously accommodationist.' There is a pull toward accommodation because an unrestrained arms race and a high level of international tension are viewed as greatly increasing the danger of international conflict and as producing pressures for alliance solidarity which unduly constrain Canadian freedom of maneuver. Since Canada is geographically situated far from the European theater, a more detached and relaxed perception of the Soviet threat comes quite naturally. However, this inclination for accommodation is pursued with much caution and circumspection. Canada prefers to follow the lead of others in the alliance rather than attempt to take a leadership role in shaping alliance policy. Canadian policy-makers are highly realistic about the limits of Canadian power, and they recognize that Canadian interests can be advanced only if close cooperation is maintained with Ottawa's alliance partners, above all with the United States.

Within Canada, support for NATO remains strong. Public opinion polls indicate that approximately 80 per cent of Canadians oppose any reduction in this country's role within NATO.[12] The New Democratic Party, much like the British Labour Party, has belatedly recognized this reality and recently toned down earlier pledges to follow a more unilateralist policy if it were to come to power.

At the present time, the whole issue of East-West conflict is not high on the public agenda, especially when compared to more tangible issues such as taxes, corruption, and the environment. This is illustrated by a recent poll which found that Canadians ranked the reduction of the risk of nuclear war as the eleventh most important issue in a list of fourteen areas of concern.[13] The low salience of East-West issues in the public mind increases the freedom of maneuver that the Canadian Government presently enjoys vis-à-vis the Soviet Union. In particular, should the Government wish to move more energetically toward better relations with Moscow, public opinion would almost certainly respond favourably. Any votes that were lost on the political right would in all probability be more than compensated for by gains in the middle and left of the political spectrum.

The official reaction in Ottawa to Gorbachev and his reforms has been very similar to that of other NATO countries. Initially, there was a good deal of caution and skepticism. When the defence White Paper was issued in mid-1987, it declared in rather stark terms: 'It is a fact, not a matter of interpretation, that the West is faced with an ideological, political and economic adversary whose explicit long-term aim is to mould the world in its own image.' [14] It also asserted: 'The principal direct threat to Canada continues to be a nuclear attack on North America by the Soviet Union.' [15] As late as January 1989, when Joe Clark, the External Affairs Minister, addressed East-West issues, he gave only limited recognition to the changes transforming the Soviet Union.[16]

However, by mid-1989, Canada's official position reflected a new perspective on the Soviet Union. In a well-crafted speech delivered in Toronto in May 1989, Clark spoke enthusiastically of the 'revolution' sweeping the Soviet Union. He hailed the 'massive, structural change' that was taking place, praised Gorbachev's efforts 'to remake Soviet society,' and suggested that we may well have entered 'a genuine watershed in modern history.' He forcefully argued: 'To me, the fundamental question for the West is this: Is it in our interest to see Mr. Gorbachev succeed? From this,

everything else follows. To me, the unequivocal answer is yes.¹[17] Does this mean that Canada is likely to follow a more assertive policy of energetically trying to push her allies to be more forthcoming toward the Soviet Union? Based upon past history, the chances of this are slight, and for very good reason.

Canadian policy-makers proceed on the basis of a sound and realistic appreciation of Canadian interests and capabilities. Canadian policy is grounded in the recognition that as a middle power, rather than a superpower, Canadian interests can best be advanced not by unilateralism but by cooperation with like-minded states within various multilateral fora. For this reason, Canada has been an enthusiastic supporter of the United Nations, NATO, the negotiations conducted as part of the Conference on Security and Cooperation in Europe, and the proposal to create 'open skies' over Europe and North America. Canada can best have an impact, it is believed, by quiet diplomacy behind the scenes and by joining with other states so that their influence is added to her own. For Canada multilateralism is the only realistic approach.

Based upon a hard-headed appraisal of the political process in Washington, Canadian diplomacy constantly has to ask: How much influence can Canada really have on American policy? Does it really make sense to strain bilateral Canadian-American relations by publicly weighing in on an issue where Canadian influence is certain to be minimal (e.g., the Strategic Defense Initiative), when very important and concrete Canadian interests are being discussed (such as free trade or environmental cooperation). Clearly, multilateral efforts within NATO make much more sense.

Canadian policy-makers, much like their counterparts in NATO, confront the emergence of a new era in East-West relations with a mixture of hopeful anticipation and cautious concern. The opportunities that are opening up for an historic transformation of the international system are exhilarating, but the emergence of new perils, as the postwar structures of the past four decades begin to crumble, is unnerving.

Can the transition to a new international system be managed so that it occurs in an orderly manner? If a new Europe emerges in which the old divisions between East and West are erased, will it be inward or outward looking, and what will happen to Canada's transatlantic ties? As the nations of the Western alliance respond to their diverse national interests, creative statesmanship, patient diplomacy, and close consultation will be needed to preserve Canada's close and important relations with her friends across the Atlantic.

Notes

An earlier version of this paper was presented at a conference on 'Soviet Foreign Policy at the Beginning of the Nineties' at the Centre Quebecois de Relations Internationales, Quebec City, in September 1989 and will appear in the published proceedings of that conference.

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14. Challenge and Commitment: A Defence Policy for Canada (Ottawa: Department of National Defence, 1987), p. 5.
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5 East-West and West-West: questions and issues

Ian Davidson

The torrent of change in the Soviet Union and Eastern Europe has now swelled to an almost incomprehensible pace, and it is still gathering momentum. Where these changes will lead, or whether they will at some time point subside in a new state of rest and stability, are at this point wholly unknowable. What is not in doubt, is that so many of the geo-political assumptions of the past forty-five years have been abruptly tossed aside: that the West must deal with the probability that the world is moving into an entirely new phase of the post-war era.

That is easy to say; it is not easy to do because no one can foretell what the new phase of the post-war era will look like. The changes taking place in the Soviet Union and Eastern Europe are so ubiquitous, so wholesale and so turbulent, that it has become extraordinarily difficult to identify any reliable points of stability. Given the proliferation of moving variables, and the multiplier effect between them, Western governments could not fail to have a hard time reaching meaningful policy conclusions.

The eruptions occurring in what used to be called the East Bloc are not, however, the only major changes taking place in the world at this time. While the world of Eastern Europe is disintegrating, politically and economically, Western Europe is poised for a major leap forward towards closer political and economic integration, and it is arguable that this Western European development, though very difficult in kind from those taking place in the East, is in its own way potentially just as momentous in historical terms.

Nor is this a simple coincidence: the dislocation of Eastern Europe has its own internal logic, but it is also in part a reflection and even a consequence of the integration of Western Europe. The success of the European Community, in political as well as in economic terms, is a standing contrast with the failure of the Communist states; and the greater the success of the European Community, the greater the standing reproach to the failure of Eastern Europe. But the success of Western Europe is also a spectacular advertisement for a politico-economic model which is not

just different and better, but European. It is significant that the reform movements of Eastern Europe, and the emigrants from Eastern Europe, take Western Europe as their model and their destination, much more than they take the United States.

Moreover, the Single European Act of 1985, and the current momentum of preparations for economic and monetary union, are not gratuitous gestures by the member states of the European Community, in blind conformity to some federalist ideology: they are perceived by most member states to be almost unavoidable responses to the need to remain, or become, competitive in an increasingly competitive world.

If the European Community was created in part to establish a closer political union, the chosen mechanism was the logic of freer markets and economies of scale. And though for forty years the Community member states only applied this mechanism half-heartedly, clinging on to many of the traditional trappings of national sovereignty and protectionism, even a half-hearted pursuit of market economics brought its own reward in prosperity and job creation, without the sacrifice of democratic or social values.

In the meantime, however, the international rules of the economic game have been re-written by the phenomenal achievements of Japan and the Newly Industrialising Countries (NICs); their success has transformed the compartmentalised international economy into a single global economy, and raised the minimum levels of efficiency and productivity required to stay in the race to previously unimagined levels. As a result, the European Community countries have been forced to recognise that, if their consumers want to enjoy the fruits of Japanese industrial prowess, their producers will also have to compete in this global economy; and that means letting go of old reflexes of nationalism.

As a result the Community is engaged on fundamental choices about its economic, and therefore its political future. The centre-piece of this year's agenda, both at the Madrid summit in June, and at the Strasbourg summit next month, is the Delors scheme of economic and monetary union; but the underlying logic of this programme is that the 12 member states are poised on the edge of a major step towards closer political integration.

If it takes place, it would for the first time carry the countries of Western Europe past their long-drawn-out stage of ambivalence over their need to act together on the international stage and their desire to prolong their national independence. Such a transformation would be, in its way, the most fundamental geo-strategic innovation in the history of Europe since the birth of the nation-state.

Moreover, it would have a reverberant impact on the rest of the world. It would transform the political balance of power within the West, between Western Europe and the United States. It would also magnify the influence of the Community on events in the Soviet Union and Eastern Europe, whether by deliberate action or just by being there. Even a partial rectification of the political imbalance between the American superpower and its dependent allies in Western Europe, would be ground for a radical re-examination of traditional security assumptions, in the West, in the Soviet Union, and in other parts of the world.

The most important characteristic of the processes of change at work in Western Europe, compared with those of Eastern Europe and the Soviet Union, is its slow and cautious tempo. The outlook in East Europe is dishevelled, headlong, uncoordinated and unpredictable; it may even turn out to be so dishevelled as to be dangerous; that is the nature of the Eastern European predicament, and the inevitable concomitant of disintegration. The integration under negotiation in Western Europe, on the other

hand, is not of a kind which can advance at high speed, and it is probable that the process will be comparatively slow and predictable, and generally beneficial for itself and others.

This may not be the way it looks to alarmist politicians in the United States, who launch premature accusations that the Europe of the Single Market will turn out to be a protectionist 'Fortress Europe'. But the plain fact is that European governments have spent most of the Community's history hesitating to implement the commitments, overt or implicit, of the Rome Treaty; even now, there is no sign that they are about to rush headlong into any new venture; and the logic both of their internal development and of the global economy is such that the member states of the European Community cannot in practice opt for a protectionist model.

Needless to say, the East-West constellations are not evolving in water-tight compartments: both are engaged willy-nilly in a more intense and more continuous process of mutual interaction that at any time in the past fifty years. Undoubtedly, that interaction involves an intoxicating measure of mutual influence; and the unfamiliarity of this heady experience causes many people on both sides to debate whether influence cannot be translated into deliberate policy.

It would appear, however, that the Eastern and Western constellations are evolving under largely different constraints, in response to distinct dialectics. Above all, the main difference between East and West is that they have different histories. Therefore, it seems probable that the processes of change in the East will respond primarily to endogenous factors.

It would be a mistake, for example, to discount the enduring force of nationalism, as a moving factor in the East; one of the consequences of disintegration, and the challenge of the legacy of Communist ideology, is that more ancient constants (such as national character and national history) may re-emerge as primary forces. The protests in Moldavia, Georgia, Armenia, Azerbaijan, Uzbekistan, Kazakhstan, Ukraine and the Baltic States, are not unfortunate accidents; they are, in some sense, a definition both of disintegration and of perestroika.

Conversely, it would be a mistake to over-estimate the extent to which, through deliberate policy, Western policy-makers can hope to channel the course of events in the East one way rather than another. The West has had, and will continue to have, a major existential influence on events in the East, simply by virtue of the contrast between the two worlds. Any programme for reform will be measured and motivated in the Soviet Union and Eastern Europe, by an essentially simple yard-stick: the record of economic, political, social, moral and artistic failure in the East, compared with the corresponding achievements of the West. The West will unavoidably be the only possible alternative source of advice and economic resources to prop up reform.

But Western governments are entirely unqualified to judge the legitimacy and strength of newly-emerging political systems in the East; for this reason they are ill-qualified to prescribe policies, since they cannot know how much stress these new systems can stand. The West cannot hope to guess what advice can be absorbed by the East, or what resources can be mobilised, in terms that are compatible with the evolving political systems there.

In any case, the conventional way in which western commentators tend to describe the policy dilemma facing Western governments, has now changed three times since Mr Mikhail Gorbachev came to power in 1985. When the new Soviet leader launched the Communist world on the road to perestroika and glasnost, earnest pundits in the West solemnly asked each other whether the new Soviet leader was 'sincere'. Within a couple of years, the more daring analysts concluded that Mr Gorbachev was indeed

'sincere' and decided that next question to ask was whether the West should 'help' Mr Gorbachev.

Currently, this second question has become the conventional wisdom, at least in spirit; but by now it has been completely overtaken by events. The relevant question to be asked now, is not whether we can help Mr Gorbachev, but whether he has any longer a reasonable chance of helping himself.

In political terms, Mr Gorbachev's campaign for perestroika inside the Soviet Union, has produced initially impressive results in the new Congress of People's Deputies and in the updated Supreme Soviet, and he has steadily succeeded in winking out conservative opponents at the top of the hierarchy. The reverse side of the coin, however, is that his evangelism for political reform has evidently proved more effective in provoking protests against Moscow's rule from some of the USSR's constituent Republics, than in selling the idea of reform to the middle ranks of the Soviet Communist party.

Moreover, in economic terms, the first results of the reform programme have been almost entirely negative, with falling output and rising prices, and a growing sense of pessimism among the population at large that things will continue to get worse. The fundamental problem is that the people of the Soviet Union have no experience and no folk memory of participating in a modern market economy; the anecdotal evidence suggests that the risk-taking aspect of market economics is meeting enormous popular resistance in general, and that those market experiments which succeed too well, such as the cooperatives, are vulnerable to deep unpopularity.

Above all, Mr Gorbachev's glasnost has helped release long-pent-up nationalist sentiments, both inside and outside the Soviet Union. The explosions of hatred in Armenia and Azerbaijan, in Uzbekistan and Kazakhstan, are clearly potential threats to the integrity of the Soviet Union. The open demands for autonomy by the Baltic states have gone long beyond the status of potential threats to Soviet integrity. Finally, any notion of measured reform in Eastern Europe has this year been cast to the four winds, with the appointment of a non-Communist government in Poland, with the passage of a non-Communist constitution in Hungary, and with even the hard-line government of East Germany on the run in the face of mass protest and wholesale emigration.

These disintegratory elements were almost bound to accompany Mr Gorbachev's perestroika; some degree of disintegration is inherent in decentralisation, democratisation and open debate. The question now, however, is whether things have got too far out of hand for the comfort of the leadership in Moscow. Some people there must be asking whether the changes can be contained or even reversed; and conservatives may be hoping that the set-backs to Mr Gorbachev's perestroika will give them the opportunity to turn the clock back.

For the time being, such a question can only remain in the realm of pure speculation; no one in the West can possibly know whether Mr Gorbachev is vulnerable to some form of general conservative backlash, either now or in the foreseeable future. On the other hand, there are four aspects of the Gorbachev legacy which almost certainly cannot now be reversed.

The first irreversibility is the public acknowledgement of historic failure, political and economic. It may be possible for some replacement leadership to revert to the familiar mechanisms of the command economy; it may even be possible for such a leadership to invoke an ideological inheritance from Marx and Lenin. But the bankruptcy of the command economy has been so openly exposed, and such long

stretches of Soviet history have been pitilessly denounced, that the system cannot recover such credibility as it once had.

The second irreversibility lies in Eastern Europe, where the pace of change has acquired a momentum all of its own. Directly and indirectly, Mr Gorbachev and Mr Eduard Shevardnadze, his foreign minister, have declared that the Brezhnev doctrine is defunct; the Soviet Union no longer claims the right to impose its version of authoritarian communism on its satellites in Eastern Europe. That renunciation is by now unavoidable; another Soviet leadership could scarcely take the risks of embarking on military repression in any East European country, let alone in several at once. In any case, in the new circumstances of today, the reactivation of the former Brezhnev doctrine could not take the form of a disciplinary action on cowed satellites, but would entail open war against fierce resistance.

The third irreversibility follows on from the second: it is the emptying of the Warsaw Pact, for the foreseeable future, of all operational military utility. For the sake of perestroika and the peace of the world, the governments of East and West appear to have tacitly agreed not to disturb the existing structures of the two alliances. This understanding is based on a powerful symbolic logic, or at least on the sense that it would be both gratuitous and dangerous for the West to attempt to challenge every aspect of the Soviet system at once. Yet even though East European governments continue to pay lip service to their loyalty to the Warsaw Pact, in operational military terms, it is now an entirely hollow structure.

Not merely can it not be used by the Soviet Union to impose central discipline on recalcitrant member states, it cannot now be counted on to function coherently in the purely hypothetical event of a conflict with the West. This state of affairs is triply irreversible. Glasnost has publicised old national animosities between East Europeans and Russians; plural and bourgeois governments emerging in Eastern Europe cannot be expected to act out their assigned roles as the foot-soldiers of the Communist super-power; and as the victims of Soviet imperialism they cannot subscribe to the fiction that the military threat comes from the West.

In other words, the military situation in Europe has already been changed out of all recognition, even before the conclusion of the Vienna negotiations on Conventional Forces in Europe (CFE). Those negotiations look likely to lead to deep cuts in Soviet forces in Europe, and the stabilisation of the military balance at equal and lower levels. But in political terms, the disintegration of the Warsaw Pact has already taken place; and it could not be reversed except by a second, and therefore much more violent, re-run of the process of conquest which took place during and after World War II.

Nevertheless, one should not under-estimate the value of the politically stabilising function still being carried out by the Warsaw Pact (and Nato), at a time when the primary anxiety hanging over the effervescence of Eastern Europe is that its unpredictability could become dangerous for all.

Under the new 'Sinatra Doctrine' enunciated by Mr Gennady Gerasimov, the Soviet Foreign Ministry spokesman, the countries of Eastern Europe now have almost total freedom to pursue their own domestic development; in a paraphrase of the celebrated song, they can 'do it their way'. This freedom is apparently subject to only one restriction: none of the Soviet Union's East European allies can leave the Warsaw Pact, which must remain untouchable.

A powerful dual logic underlies this ultimate condition: the peace of the world, and the geo-strategic interests of the Soviet Union as a super-power.

First, the abandonment of democratic centralism and imperial domination are almost bound to produce local political turbulence; but it is vital that local political turbulence should not get out of hand and trigger international instability, or even threaten military conflict.

Second, the Warsaw Pact is one of the symbols of the Soviet Union's vast geo-strategic mass; it is vital for Soviet self-esteem, for the reputation of Mr Gorbachev, and for the integrity of the Soviet empire, that it should remain intact.

This second consideration may even carry more weight than the first, because of the importance of uncontrollable precedent. If one state should leave the Warsaw Pact, the entire fabric might rapidly unravel; the defection of Hungary might well provoke an escalation of the process, leading ultimately to the defection of one or more of the 15 Soviet Republics, starting with the Baltic states and ending heaven knows where.

Some ultra-conservatives in the West argue that no price is too high for the Soviet Union to pay, and that the West, having saved the peace and won the ideological war, should be satisfied with nothing less than the complete disintegration of the Soviet empire. This is reckless thinking, since it is based on the assumption that such a disintegration would take place without danger for the West.

We do not know what is the bottom line for the Russian people. The implied judgment of the Sinatra Doctrine is that the Russian people will put up with economic deprivation or even with economic chaos for a time; but that they would not put up with the blow to their national amour-propre inherent in an overt dismantling of the Soviet Union's status as a superpower. That judgement may be correct. We may think that a re-conquest of the Soviet Empire in Eastern Europe would be too bloody and too difficult for the Soviet Union to contemplate; but we cannot be sure that, in the very last resort, such calculations would prove a sufficient deterrent. In any event, we have no conceivable interest in seeking to precipitate such a risk, however small.

But if perestroika has voided the Warsaw Pact of virtually all its military utility, what then is the future of Nato? If there is no longer a militarily credible alliance on the other side, how long can the Western alliance sustain its own credibility? Is there not just as great a probability that Nato will disintegrate, in as much as its members are not held together by compulsion?

Certainly, it seems probable that Nato will face serious internal difficulties in the new environment of detente; and the most immediate difficulty will centre on Nato's nuclear weapons doctrine. But the Alliance's chief strength hitherto, is precisely that it is an entirely voluntary organisation. This has enabled it to weather many previous crises, and it will require truly reckless mis-management by member governments, to cause it gratuitously to disintegrate now.

The specific issue of Nato's nuclear weapons dilemma, on the other hand, must not be under-estimated. For over 20 years, the Alliance has largely concealed the nuclear problem behind the ambiguous phrase 'flexible response'; but in the new era of apparently genuine detente, this sort of concealment is no longer effective in reconciling the political needs of the Germans with those of the US.

How these diverse political needs will in future be reconciled is hard to predict. Common sense suggests three possible elements; a smaller role for nuclear weapons in general; fewer nuclear weapons of all kinds; and no land-based missiles in Germany.

The first element will come within sight if an equal balance of conventional forces in Europe is satisfactorily negotiated in Vienna; the second will start to come within sight through a successful Strategic Arms Reduction Treaty (START) negotiation, the third will be brought about either by a negotiation on Short-range Nuclear Forces

(SNF) after the Vienna talks, or else (more probably and more comprehensively) by the refusal of the Germans to accept a Follow-On To the Lance missile (FOTOL).

Political conservatives in the Alliance, and its military leaders will no doubt resist the down-grading of nuclear weapons in Alliance doctrine implied by these three elements. But the task of political leaders in the Alliance, notably in the US, will be to work with, not against, the grain of history, and to recognise that the East-West relationship today will not be successfully managed if the Western Alliance attempts to put military considerations before political, or if Nato tears itself apart in a wholly gratuitous ideological quarrel over nuclear deterrence.

The fourth irreversibility of Mr Gorbachev's perestroika, is his general foreign policy of far-reaching detente with the West, and the corresponding transformation of the Soviet Union's image into an increasingly acceptable member of the international community. If perestroika fails to produce economic benefits within a tolerable time-frame, another Soviet leader might conceivably resort once more to a command economy; and he might therefore prefer the privacy of a less friendly relationship with the capitalist adversary.

But he would have difficulty in rejecting the political advantages that may accompany the negotiation of far-reaching arms reduction agreements, and even graver difficulty in restoring a militarily hostile posture to operational credibility, so long as the members of the Warsaw Pact remained as fissiparous and pacific as they are today. Moreover, if there are economic dividends to be procured from disbanding large chunks of the Soviet armed forces, a new leader would need to muster very powerful arguments for discarding these advantages.

In moral and ideological terms, the configuration of events in the Soviet Union and Eastern Europe is extraordinarily favourable to the West. But this does not mean that we have emerged into a world free of dialectic; the thesis of Mr Francis Fukuyama that we have reached the End of History is just idle chatter, and a disturbing indicator of the level of intellectual debate in the US State Department.

The mere fact that the Communist model has now been admitted to have failed comprehensively, does not mean that all problems of economic policy and political government have been solved, in obeisance to some trans-Atlantic ideal. On the contrary, the reformers of Eastern Europe are still exploring alternative political and economic models, with an apparent preference for the parliamentary systems of Western Europe over the presidential system of the US, and there is so far no evidence that their economic preferences go primarily to the American model of economic liberalism.

Moreover, if proof were needed that history has not ended, one need only listen to the fierce debate over the European Community and the future of Western European integration. This debate is a symptom of the fact that history did not end with the consolidation of the nation-state, and that the governments of Western Europe feel compelled to seek solutions which are entirely new, and in some sense revolutionary, to the problems of political economy, of relations between states, and of the relations between governments and their electorates. It is obvious, from the depth of disagreement between Mrs Thatcher and President Mitterrand, that these are not problems with self-evident solutions.

Their debate now takes on even greater salience from the disintegration process in Eastern Europe, and is given particular acuity by the rush of events in East Germany. For some time it has been clear that the European Community is both a magnet and a model for the liberalisers of Eastern Europe: the natural implication of the democratisation process in Poland and Hungary was that the 12 member states

should strengthen their own political solidarity, by pressing ahead with the Community's integration.

But with the breaking down of the Berlin Wall, that argument is now being questioned by some people. With sudden force, the issue of Germany's reunification is perceived to have come to the fore; and some people are suggesting that the Community should do nothing precipitate which might make that reunification more difficult or even impossible.

This argument is sometimes concealed behind the pretext of West European unity. Mrs Thatcher is adamantly opposed to the sub-federalist model advocated by M. Jacques Delors, President of the Commission; and a major clash between Mrs Thatcher and President Mitterrand is likely at next month's Strasbourg summit over Mr Delors' project for Economic and Monetary Union (EMU). Revisionists who are most anxious to keep open the option of German reunification, argue that EMU raises large and complex politico-economic questions which require time and study, and that there is no need to hurry; that a split between Britain and the rest, leading to a two-speed Europe, should at all costs be avoided; and that Mr Douglas Hurd, Mrs Thatcher's new Foreign Secretary is a decent fellow and a good European, who will need a little more time to bring her round.

The reluctant Europeans may win the day, or at least a respite; we shall learn soon enough, but it seems clear that their arguments are either specious, or else rest on the unstated assumption that the reunited Germanies would become an independent and probably neutral mega-state in central Europe, outside either Comecon or the European Community, and outside either the Warsaw Pact or Nato. For if they were to be reunited inside the European Community, it would be essential, from the point of view of the other member states, to ensure that the sub-federal political and economic structures of the Community were strong enough to contain and control a mega-Germany which was twice as powerful economically, and perhaps politically, as any other single member state.

Equally, little faith can be placed on the persuasive powers of Mr Douglas Hurd. Mrs Thatcher's convictions are strong, and they will not melt before the eloquence of her new foreign secretary; they just might bend before the threat of being out-voted and left behind. That, after all, is what happened in 1985 with the previous Inter-Governmental Conference (IGC), which led to the Single European Act.

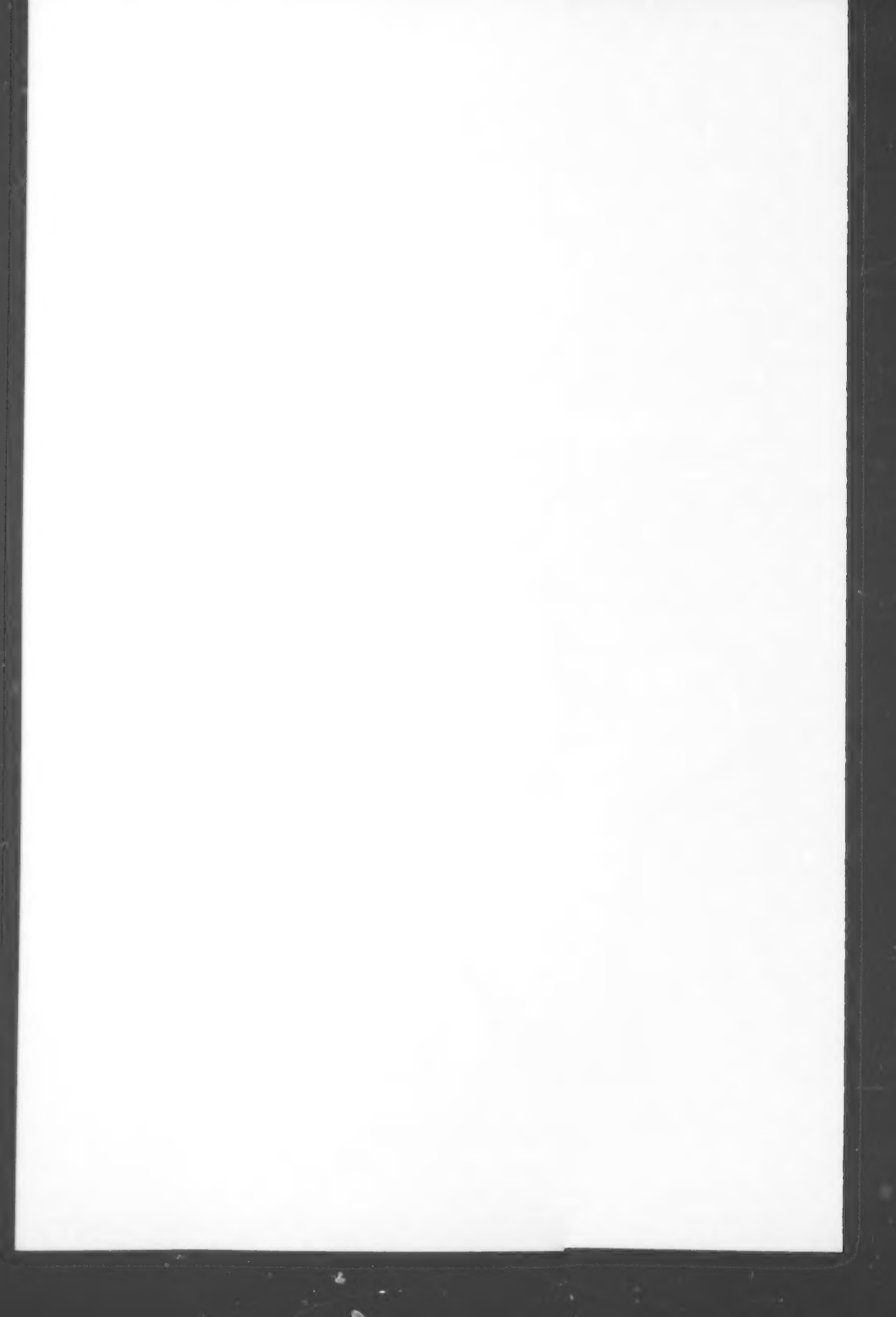
In any case, as we are repeatedly told by many government spokesmen in both East and West the question of German reunification is not formally on the table. Formally, it cannot be put on the table without the agreement of the Soviet Union; and the Sinatra Doctrine would seem to rule it out. Informally, it cannot be put on the table without the agreement of the East German government; and the government of Mr Egon Krenz seems as firmly opposed to the idea as his lately departed predecessor.

A preparatory move to straight-forward re-unification of the two Germanies might be sought by bringing East Germany into European Community as a full member. For the time being this is not formally on Brussels' agenda, nor is it likely to be immediately welcome. Austria and Turkey have both applied to become full members of the Community; so far, they have received the guarded reply from a number of member states that no enlargement of the Community can be envisaged before the completion of the Single Market in 1993. Nothing has yet been said by Mr Egon Krenz to suggest that East Germany is a candidate for Community membership; such a move would certainly be taken in Moscow to be going far beyond the respectable bounds of perestroika, and to threaten the constraints of the Sinatra Doctrine.

And yet, we should be warned by recent events not to put too much reliance on formal agendas. The political agenda in Poland was rewritten by the Solidarity trade union movement in 1980; it refused to be frozen out by martial law in 1981, and it has finally taken control of government. In East Germany Mr Erich Honecker was swept away by street protest and mass exodus; street protest and mass exodus have forced his ostensibly hard-line successor to break down the Berlin Wall and promise free elections. German reunification may be welcome in Moscow, in Washington, in London, in Paris, in Warsaw in East Berlin, and even in Bonn. But if free elections take place in East Germany, they may produce a government which has no option but to seek German reunification.

Events are moving too fast for us to predict them; they are even moving too fast for our comprehension. We should have foreseen that the democratisation of Poland and Hungary would have a contagious effect on Germany; yet no-one predicted the breaking down of the Berlin Wall.

It is therefore all the more incumbent on Western leaders to focus on the essentials that they know, can predict, and can influence. Broadly speaking, it is in the interests of the West to do anything it can to ease and to stabilise the disintegratory processes of the East. In reality, Western actions will be marginal. But in the European context, it seems clear that any strengthening of the European Community would be a significant factor of stability and reassurance.



6 Canada, Britain and North-South Relations

Bernard Wood

Introduction

On the face of it, a joint assessment of Canadian and British approaches to North-South relations might seem like comparing apples and oranges in a butcher shop. For a number of important reasons, however, the comparisons and contrasts as well as the need for a thoughtful dialogue, have become both relevant and pressing.

A few years ago, Canada, which still remembers its colonial past, overtook Britain, with its unparalleled colonial linkages, as a donor of official development assistance.[1] While only one part of the North-South relationship, this is still a striking indicator of differing national approaches and priorities, and it is widely perceived as such in the international community.

Apart from the aid relationship, it is useful to take stock of the many other North-South linkages of both countries, and to try to trace their respective roots and their current and projected importance.

It is not merely of academic interest to assess where the British and Canadian approaches to North-South relations may converge, diverge or run in parallel. Together these two national efforts represent a substantial part of that of the Western world. Given the Commonwealth's unique North-South institutional framework, the policy agreements and disagreements of its two strongest Western members take on added significance, and indeed divergent British and Canadian assessments of the Commonwealth itself now represent a major division. Three other major issues in North-South relations are also relevant to this discussion: international measures to help eliminate apartheid and minority rule in South Africa; the prolonged international debt squeeze on many developing countries; the underlying dynamics of cross-cultural relations in the domestic, immigration, and international dealings of these two countries.

The explicit and predominant focus in this paper, of course, is on Canada's relationships and policies, in the expectation that a British counterpart paper will provide balancing coverage. However, comparisons will be drawn where useful.

Decolonization and the Cold War [2]

Historically, Canada is one of the industrialized countries which has been least linked to the developing countries of Asia, Africa and Latin America. Most of the Western industrialized countries have in this century shared with developing countries the intense and ambivalent relationship of colonialism. Others assumed, in different regions, a *de facto* political and economic overlordship which approximated colonialism in many respects. Canada, like Australia and New Zealand, entered the century if not still a colony, at least with no aspirations to be an international colonizer. In a comparative perspective, Britain was obviously the most linked by the most extensive empire in history.

In 1945, as Canada emerged strengthened politically and economically from World War II, Latin America and the still-colonized regions of Africa and Asia figured little in Canadian foreign policy. Direct trade was very small, although the long-standing historical link with the West Indies was still significant, and political and other linkages were largely channelled, through the British connection, to what were to become the Commonwealth countries. Meanwhile, because of the war-weakened state of most European nations, Canada loomed disproportionately large in the North Atlantic community and in the fledgling organizations of the United Nations and Bretton Woods institutions. These arenas offered major scope and challenge for pursuing Canadian interests and influence.

The great postwar spasms of decolonization touched Canada less than they did the former colonizers and probably less than they touched the United States, with its growing world responsibilities and its historical anti-colonialist sentiment. Canadian opinion and policy were sometimes torn, both on the issues raised by decolonialization and between conflicting West European and American responses.

The Canadian responses were several, and only infrequently were they a major influence on the course of world events. For example, Canadian participation was significant in legitimizing and building the Colombo Plan as a new vehicle of development aid to Commonwealth Asian countries. As a nation that strongly supported the United Nations system, Canada logically supported the admission and participation of many newly-independent states. Finally, the Suez Crisis in 1956 drew forth a special new mediatory role for Canadian diplomacy, carried on through successive peacekeeping involvements in different parts of the Third World.

From the time that the Cold War set in the late 1940s, and for the following fifteen years, the instruments of both Western and Eastern foreign policy in the developing countries, aid programs, investment, scholarships, exchange schemes and, on occasion, military aid and intervention, all took on a distinctly competitive aspect. A key objective with respect to Third World countries was the promotion of alignment or sympathy with one Cold War 'camp' and its denial to the other.

While most of these elements, including limited military assistance, were to be found in Canadian policies towards the Third World, the Cold War perspective was never so strong as to preclude Canadian openness to 'non-alignment' and a range of more or less independent positions on the part of developing countries. It is possible that this openness was initially linked to Canada's special relationship with India under Nehru, one of the principal architects of non-alignment. In the early 1960s a further

test case for Canadian policy was presented by the inter-American boycott of revolutionary Cuba, a boycott which Canada refused to join. In other festering issues in the Third World where East-West conflict has been a factor, such as, the struggles in postcolonial Indo-China and in Southern Africa, the Canadian reactions have been mixed. Membership on the tripartite Indo-China Truce Commission led on occasion to a staunch Canadian defence of Western interests and sometimes to more independent conciliatory initiatives. In Southern African affairs, too, the record allowed for an important role in securing the withdrawal of the racist South African regime from the Commonwealth, a very cautious approach to pressure for change in Rhodesia, now Zimbabwe, and Namibia and, more recently, membership in the Western Contact Group for Namibia.

On the economic front, meanwhile, selective beachheads of Canadian-based private investment in the Caribbean and parts of Latin America were being strengthened and extended. The locations of such investment were also diversified, extending to new areas from the South Pacific to sub-Saharan Africa. Traditional interests in banking and utilities were matched by new activities in various resource sectors and in a few manufacturing industries, such as farm machinery. At the same time, some of the oldest investments, particularly in Latin American utilities, were being taken over by the governments and nationals of host countries. Other non-official linkages, such as the historically-strong Canadian missionary presence in many developing countries, were maintained and paralleled by the growth of non-governmental organizations (NGOs) such as the Canadian University Services Overseas (CUSO).

Probably the most visible of Canada's linkages with the Third World during the 1960s and 1970s, and the most debated,[3] was its program of aid or official development assistance. This program has substantially shaped, and on occasion limited, the overall Canadian approach to North-South policy, as indeed it has with most of the other industrialized countries. The official and public overemphasis on the importance of aid, despite its limited real role as an instrument of development, was understandable. Official aid allocations have been the only significant government expenditures explicitly directed to relations with developing countries, and the aid agency (since 1968 the Canadian International Development Agency, or CIDA) has been the only arm of Government whose principal, indeed exclusive, task has been to work on these relationships.

During the period under review, there was a strong tendency among Western nations to view the central problem of developing countries as one of some 'missing factor', for example, capital, skills, technology or infrastructure. Similarly, the role that industrialized countries saw for themselves was one of helping to supply that factor.

Thus, public and parliamentary discussion of North-South issues tended to focus on information about new Canadian aid involvements in different developing regions and countries, and Canada's attempts to meet the accepted international targets for aid in relation to the Gross National Product of donor countries. The aid program was equated with Canada's policy towards developing countries and only occasionally did the emphasis shift to peacekeeping involvements or political issues e.g., with respect to relations with Cuba, Southern African controversies, concern over human rights or foreign investment disputes.

For their part, policy makers saw the aid program as their principal instrument for protecting and enhancing Canadian interests and projecting Canadian values in different parts of the world. However, the development of different regional focusses was often less the result of strategic priority-setting than of a broad diplomatic concern to secure some Canadian 'presence' in each region. Thus, the focus widened steadily,

from the early subscription to the Colombo Plan for Commonwealth Asian countries, to special assistance for the more familiar countries of the Commonwealth Caribbean and the newly-independent countries of Commonwealth Africa. One conscious and deliberate shift, made in response to domestic concern over reflecting Canada's Francophone character and containing some of the international linkages being sought by successive Québec governments, was the rapid movement into Francophone African countries, most notably with the Chevrier Mission in 1967.

Finally, the desire to establish commercial and other contacts with certain countries in Southeast Asia and Latin America, previously down played in Canadian foreign policy, eventually led to their inclusion as targets of Canadian policy abroad.

Early North-South Debate

Thus, while the regional emphasis in Canadian policy was broadly sensitive to Canadian political and commercial interests, it was not tightly concentrated or targeted in accordance with those interests. At the international level, however, it is possible to trace a more coherent set of Canadian reactions to the growing demands from the developing countries as a group for changes in the international economic order.

It was in the mid-1960s that the grievances of developing countries about their position in the international economy, and their proposals for change, began to take clear shape. Analyses of the dependency of Third World countries vis-à-vis the countries of the industrialized world, and of the remedies required, were first developed through the UN Economic Commission for Latin America (ECLA). They were then carried over into the UN Conference on Trade and Development (UNCTAD), which became in 1964 a de facto permanent UN organization.

From the start, UNCTAD was viewed by the governments of developing countries as 'their' organization, and many other governments, including Canada's, shared this appraisal. The Bretton Woods institutions and the General Agreement on Tariffs and Trade (GATT) had been inherited from an era in which there were fewer independent developing countries and where international decision-making was mainly responsive to the vastly superior economic and financial power of the Western industrialized countries. UNCTAD, reflecting more of the one-flag/one-vote style of the UN General Assembly, was far more receptive to the preoccupations of its new majority, the Third World. This was reflected in its agendas and debates, in its studies and in its staffing. Successive UNCTAD conferences, and the committee and secretariat work that took place in between, concentrated on the set of issues that would later be crystallized in the developing countries' demand for a 'new international economic order'. These were the instability and relative weakness of primary product trade; the need for expanded and preferential market access for developing countries; and controls over transnational investment, shipping, technology communications and human resource flows.

Throughout the 1964-1974 period, most Western governments were basically distrustful, and frequently disdainful of UNCTAD's analyses and debates, and their participation in the organization's activities was approached as a kind of 'damage-limitation' exercise.

Because of UNCTAD's lack of jurisdiction, its perceived bias towards Third World viewpoints, and the general assumption that those viewpoints were of marginal importance in the international economy, Western governments made practically no

effort to contribute alternative viewpoints or suggestions to help meet the special problems of developing countries.

Throughout these years, it was increasingly recognized by specialists and decision-makers around the world that securing increased benefits from trade and investment would be far more important for developing countries than any conceivable amounts of official development assistance. This was recognized in the Pearson Commission report, prepared by the former Canadian prime minister, for the World Bank, and was endorsed in a report of the first Parliamentary Subcommittee on International Development Assistance (1970). Significantly, this policy issue was largely sidestepped in the Government's own foreign policy review, 'Foreign Policy for Canadians', the reason being that the allocation of increasing aid budgets would be less painful for the Canadian Government, than would, for example, the opening up of Canadian markets to competitive Third World goods.

Furthermore, the policy instruments required to assist developing countries' trade or monetary situations were predominantly in the hands of departments of government which traditionally acted for domestic interests or in close concert with the governments of other industrialized countries. It would clearly have been a radical shift for them to give major weight to the developmental interests of Third World countries in their work, and they did not.

Without very forceful prodding at home and facing an unappealing 'no-win' situation in UNCTAD and other fora where developing countries aired their grievances, the general Canadian policy became one of jockeying among the range of 'Western' responses to the Third World. While policy-makers assumed that Canada should strive to be as open-minded and forthcoming as possible in response to Third World demands, there was little or no expectation that Canada would find itself, together with the Scandinavian countries, at the forefront of Western generosity and responsiveness. In fact, it was a tacit, and sometimes explicit, article of faith that Canada could not, and should not, deviate too far from the position of the dominant and often most conservative OECD members: the United States, West Germany and Japan.[4] Canada's credibility, it was reasoned, together with its presumably benign influence on the key Western powers, hinged on attributes such as moderation, 'realism' and gradualism.

In spite of the apparent disavowal of some of Canada's leading postwar multilateralism suggested by the foreign policy review of 1970, a responsible and responsive approach to international, and especially UN, organizations remained a significant touchstone of Canadian policy. To the surprise of most participants as well as most observers, the Commonwealth emerged as a special and important cross-cutting caucus of the international community. It was one of few fora where a smaller network of leaders from both the Western and Third World voting blocs at the UN met informally and in an environment where they were compelled to try to comprehend each other's preoccupations and reactions. For historical reasons, Canada was often thrust into playing a key 'bridging' role on behalf of the old 'White Commonwealth'. Inevitably, expectations that Canada would continue in this role were to carry over into North-South debates in the wider UN fora.

The recognition of the developing countries' demands as a significant arena of policy focus for Western governments first came in the mid-1970s. The vehicle for change was the Organization of Petroleum Exporting Countries (OPEC) with its dramatically successful campaign to increase its members' revenues from petroleum exports and to use their collective economic power to achieve international political leverage. The oil weapon, used most directly in the oil boycott, struck at the economic

jugular of the industrialized countries, precipitating domestic and international political crises.

The Paris Conference on International Economic Cooperation (CIEC), informally called the 'North-South dialogue', brought together, at the invitation of the Government of France, 27 governments: nineteen from the 'South' and eight 'Northern' industrialized countries. One country from each group was called upon to co-chair, with Canada being selected to represent the North, and Venezuela the South. In each case the selection criteria included possessing sufficient weight and skill for credibility, and sufficient moderation vis-à-vis the concerns of the other group to encourage a spirit of compromise and possible agreement.

In the event, once the ardour, or anxiety, of the two sets of participants had cooled, the co-chairs were in a particularly difficult position. They retained a responsibility for trying to achieve a successful conclusion, but basically lacked the means to do so. As the conference moved towards its inevitable disappointing conclusion in mid-1977, the Canadian Government felt impelled to contribute to a major round of official debt write-offs for the poorest countries, a gesture joined by the other 'progressive' and 'moderate' Western donors. Finally, in a pattern that was already familiar, the only front on which the Western group could fully agree, in order to try to salvage the Conference from complete failure, was in the area of aid. A special fund of \$1 billion for the countries hardest-hit by the recent crises was the eleventh-hour outcome.

The Canadian Government team emerged from the CIEC process especially frustrated and disillusioned. So, to one extent or another, did most other participants; an important experiment in shifting the setting and style of North-South discussions had failed, and a pattern of stalemate had been confirmed. Only a few governments - those which had always believed, or had come to believe, that a change in the status quo would damage their interests - could greet the result with equanimity.

Stalemate-Breaking

Towards the end of the decade, two major thrusts were undertaken in an effort to break the deepening state of stalemate in North-South relations. The first, promoted by World Bank President Robert MacNamara, was the convening of an Independent Commission on International Development Issues, chaired by former West German Chancellor Willy Brandt. The Brandt Commission, established a decade after the similar Commission chaired by Lester B. Pearson, was to attempt to cut across the sterile agendas and the now-fixed positions of government.

A fundamental standoff persisted, in spite of the publication of the conciliatory, and sometimes influential pleas of the Brandt Commission for a new 'political will' to recognize and act upon the urgent mutual interest of North and South in speeding Third World development. The prospects for negotiations seemed darkened by the election of the Reagan Administration in the United States, an administration whose major representatives initially made it a matter of pride that they had little knowledge of or interest in the economic problems or proposals of developing countries.

Canada, meanwhile, under both Progressive Conservative and Liberal Governments,[5] had been playing an active role, with some of the other liberal 'like-minded' Western nations, in trying to keep the dialogue alive and to make it more constructive. A new impetus came with the return of Pierre E. Trudeau's Liberal Government in 1980, and the coincidence that 1981 would see Canada hosting the Western Economic Summit.

To help lay the groundwork at home, a special parliamentary task force on North-South relations was struck,[6] and the Canadian Government committed itself to restore growth to the aid program which had been cut back under both Liberal and Conservative regimes. Internationally, the work involved close consultation with other summit countries, including prime ministerial visits to most of their leaders, to maintain prominence and substance for the agenda item on North-South relations. Preparations for the Western summit, to be held at Montebello, were carried out in parallel with the Mexican and Austrian leaders' efforts to try to convene an unprecedented North-South summit, one of the special deadlock-breaking efforts suggested by the Brandt Commission.

The latter summit, originally proposed to precede Montebello, was moved back to Autumn 1981, and the locale set in Cancun, Mexico. Thus, the North-South discussion at Montebello took on more of the character of a pre-Cancun caucus of key Western countries. The key initiatives before Western leaders were: special concerted measures to grapple with the ominous debt and payments problems of developing countries; the proposal for the creation of a special 'energy affiliate' attached to an organization like the World Bank to help oil-importing developing countries find domestic energy supplies; and, finally, proposals for new terms under which the 'New Global Negotiations' might be agreed upon and launched.

The Canadian Government, with special support from the newly-elected Mitterand Government of France, was instrumental in achieving a generally positive statement on Global Negotiations, but little progress was realized on other North-South fronts. Canada remained sufficiently central to the follow-up process that it was a foregone conclusion that it would be called upon to step in to co-chair at Cancun when the Austrian Chancellor proved unable to participate. The Cancun Summit was a remarkable event, but one whose results fell short of the many expectations that had been held for it. Prime Minister Trudeau, the Canadian Co-Chairman, drawing on his unique experience as a participant in multiple Commonwealth Heads of Government meetings, was able to make a special contribution to some extraordinary informal exchanges of views among the 25 leaders present. Canadian officials continued to serve after this session as central actors in subsequent efforts to pick up the enterprise, but the high-profile 'year of the summits' was over, and the deadlock in the diplomatic dialogue remained.

Current Issues and Trends

The Politico-Economic Ground Rules of North-South Relations

The formal, comprehensive North-South dialogue had largely petered out by the mid-1980s, although several key North-South issues had come to attract more serious intergovernmental attention than ever. The Third World debt problem, trade and protectionism, the relief needs of drought-stricken African countries, and North-South issues in the fields of human rights and the environment all came to be significant concerns for Western governments.

This was in a politico-economic climate of opinion and policy among most Western countries that could broadly be described as neo-conservative, emphasizing de-intervention and greater scope for market forces and disciplines. This climate was far from congenial to much of the philosophical thrust of the 'New International Economic Order' and related Third World demands, although they were not as totally rooted in interventionist ideology as many believe.[7]

The industrialized countries as a group have intervened vigorously to impose this de-interventionist ethos on developing countries, particularly through tough programs of 'structural adjustment' enforced by the International Monetary Fund, although at the same time, the industrialized countries' own policies with respect to trade access, and budgetary deficits have been far from consistent with these laissez faire prescriptions. Aid levels have stagnated or declined and repeated efforts to re-start private lending have failed, leaving many developing countries faced with net outflow of finance. The consequences have been to add to the economic, political and social problems of developing countries, but perhaps as well to dispel any remaining illusion that the international community would ever be willing or able to provide serious assistance in overcoming underdevelopment on the basis of generosity. Quid pro quos and mutually-advantageous bargains at various levels would have to be sought by developing countries wishing to benefit from Western investment, technology 'know how' and market access. Clearly the better-off and larger developing countries would tend to have more such bargaining power, and many poorer, smaller countries could command little or none, at least acting on their own.

Developing countries could still find some occasional leverage in encouraging competitive behaviour and offers among the various Western countries, but in general, private consortia and official co-ordination have maintained lender solidarity in debt dealings, and the industrialized countries have been fairly uniformly hard-nosed about market access. It is mainly on investment deals that a few developing countries have been able to promote some competitive bidding, but the opportunities have not been numerous in the overall business climate in these countries, given the options for investors elsewhere.

A final aspect of the changed North-South relationship in the latter half of the 1980s is the withdrawal of the Soviet Union and its erstwhile allies in Eastern Europe from a multiplicity of military economic and political involvements in the Third World. Mr. Gorbachev's own adoption of economic reform, glasnost and democratization, together with his 'new thinking' in foreign policy has left most Third World countries with no alternative ally, funder or alternative political and ideological 'model' to the West, if models have any appeal to them. The early Cold War ability of developing countries to play off West against East had long since diminished in any event, but now it has practically disappeared. Many Third World leaders themselves have come to accept the need for market-oriented economic reforms, democratization and concern for human rights. They are making their presence known in more countries, and thoughtful leaders in the 'non-aligned' movement have seen a need for it to live up to its name more fully.

Aid Strategies, Budgets and Third World Debt

The Progressive Conservative Government that came to power in Canada in 1984 has not proved as responsive to neo-conservative ideology in most fields as its British and American counterparts, and the tone and thrust of its foreign policy have generally remained in line with a broad progressive multipartisan consensus. In fact, the Mulroney government's first major appointment was that of Stephen Lewis, a prominent New Democrat, as ambassador to the United Nations, and the government's policy toward the UN from the outset was a return to the vigorous, middle-power multilateralism of the pre-Trudeau period, in stark contrast with the undisguised contempt of the Reagan administration for the world organization.

While the new Government pledged to maintain Canada's commitments to move toward the accepted international targets for aid volume, a number of early statements and initiatives by the Ministers concerned suggested the possibility of a different ideological cast to the program, by stressing the benefits to Canadian business. Like the foreign policy green paper, entitled *Competitiveness and Security*, the results of a special ministerial study on the aid program, the Desmarais Committee Report, proposed a new and distinctly conservative orientation. In both the broad foreign policy field and aid policy, however, some further time and consultation confirmed a much more progressive policy direction. The green paper and the future of aid policy were both referred to energetic parliamentary committees, the Hockin-Simard and Winegard Committees. They held extensive hearings and came forward with coherent, forward-looking reports which were largely accepted by the government. The broad foreign policy thrust was one of 'constructive internationalism'[8] and the aid strategy responded to many of the longstanding progressive criticisms and proposals in the field.

The new strategy, formally released in mid-1988, re-dedicated the program to the development objective as its central focus, with Canadian economic and political objectives clearly subordinated to it; 'human resource development' was identified as the central substantive approach; CIDA 'partnerships' with private sector actors including NGOs and institutions, were to be relied on more heavily, but the formal 'tying' requirements for Canadian aid were substantially reduced; the planning and management of the program were to be significantly decentralized to missions in developing countries, in order to increase the responsiveness and quality of interventions; and more explicit provisions would be made to try to ensure that Canadian aid programs contribute to advancing human rights observance in recipient countries. The pledge was made to continued movement toward the international aid volume targets although the original target dates had long since lapsed, and all previous performance had fallen short of what had been promised.

In practice, the challenge of managing the first phase of CIDA's decentralization campaign has proved difficult and controversial, because of high initial costs and some bureaucratic resistance. The implementation of the 'human resource development' and human rights dimensions of the program has been very slow in coming, while the door has remained wide open to 'partnership' projects which may frequently respond most clearly to the interests and priorities of the Canadian partner, rather than the priority needs of the developing country. In practice as well, a growing share of the bilateral aid program was already being steered increasingly by the demands of structural adjustment programs being designed and imposed by the IMF with the co-operation of bilateral donors. Finally, with its austerity budget in the Spring of 1989, the Government, faced with overruns in its deficit reduction plans and grave difficulties in cutting domestic programs, made hugely disproportionate cuts in its planned spending for aid and, to a lesser degree, for defence. Subsequent statements, especially by the CIDA President re-appointed after stints in External Affairs and the IMF, indicated little likelihood of restoring the growth path of the CIDA budget or of a will or ability to implement some of the substantive new emphases of the 1988 strategy.

In spite of these cutbacks, it should be noted, the Canadian aid program will probably remain substantially above the average, in both quantitative and qualitative terms, for the OECD donor countries, and certainly for the 'Big Seven' of the Western Economic Summit. At the same time, the capacity for world leadership by Canada in this area, which had begun to emerge has now probably been sacrificed. The scale

and nature of Canadian aid is now largely set by cooperative donor strategies and by Canadian foreign policy needs to respond to demands in a multiplicity of countries and regions.

In the area of Third World debt, a preoccupation throughout most of the decade, Canadian banks are substantial stakeholders and Canadian governments have shared with others all the difficulties of trying to devise helpful responses with a tolerable sharing of burdens among debtors, creditors, governments and international institutions. True to its more general approach of openness on North-South issues, Ottawa has tended to be more receptive than most major Western governments to explicitly tackling these questions in meetings such as those of the Western Summits. Canada at several points provided leadership in relieving the official debt problems of the poorest countries, but there has been no special Canadian solution to propose for the bigger debt problems.

While co-operating in the Baker and Brady Plans, which have not provided any net relief, but managed to buy time for all concerned, the Canadian government has required its banks to increase their 'loan loss' reserves for 32 developing countries up to 45 per cent, and the requirements may yet go higher. The consequence is that several of the banks have now reduced their vulnerability to possible moratoria, slowdowns and defaults to the point that such events would not necessarily be crippling ones. Whether or not many developing countries will again become attractive or acceptable credit risks for sizable amounts of new money from the banks, without ironclad official guarantees, remains doubtful for some long time to come. It has begun to be understood that this is not just the debtor countries' problem. The North-South Institute in Ottawa has estimated that Canada lost some 130,000 job-years between 1981 and 1987 because of exports foregone to debtor countries, and that resolution of their debt and import problems would create hundreds of thousands of new jobs in Canada. For good or ill, the current overhang of debt problems will remain a major feature of the international economy for many years, and indebtedness is one North-South problem that has forced itself onto the mainstream agenda of Canadian and other Western decision makers.

We are seeing and will see massive new domestic and international competition for diminishing resources. With recessionary conditions on the horizons, domestic deficit-fighting will be intensified. Central and Eastern European countries are emerging as recipients, if not of official development assistance for OECD purposes, at least for huge blocks of resources. This is obviously going to make for a much more difficult situation for developing countries, and the compelling replication of the old security argument for Third World aid in Eastern Europe is going to make that region an especially powerful competitor.

The Commonwealth and Other Fora

With the post-war proliferation of nation-states in Asia, Africa and the Americas, both Canada and Britain have had to manage a plethora of relationships internationally. These take both bilateral and multilateral forms. The Commonwealth, although it cannot claim primacy among multilateral organizations in either security, political, or economic terms, does form a unique link between these two countries and from both of them to a wide variety of countries, large and small, throughout the Third World.

Although Britain still evidently places great prestige value on its residual status as a Permanent Member of the UN Security Council, British foreign policy does not

generally place as high a value on multilateral diplomacy as does that of Canada. The ambivalence as especially pronounced toward the Commonwealth, and not only because what had been seen by many Britons as a choice between the Commonwealth association and the European Community has long since been decisively resolved in favour of Europe.[9]

There is now a long succession of episodes in which Britain has been isolated and alienated from the majority of Commonwealth countries, including Canada to the point that there is now beginning to be a serious concern as to the place in this association of the nation that was its very source.[10]

On the surface, much of the discomfort of the British association with the Commonwealth has related for many years to the issue of apartheid and southern Africa, with London's relationships with Pretoria being an inflammatory problem in relations with most, not all, of the other Commonwealth members. In fact, this issue has become symbolic of the basic character of the association: that of a free and equal, non-racial association, stretching across geographical and ideological lines. The painful baggage of colonial history, for both Britain and many of its ex-colonies, has made the disagreements much more volatile and intractable. Recent years have seen the apparent paradox of the Queen and the Royal Family having a fully modern appreciation of the Commonwealth as a rare and valuable network which crosscuts all the normal international boundaries between races, religions and ideologies, at the same time that British governments and large segments of British opinion have become vituperative about being singled out for criticism by ex-colonies that are often viewed as hypocritical.

Canada, it should be stressed, tends to place a high value on the association, unburdened as it is, like Australia and New Zealand with neither recent nor especially painful colonial experiences. The most telling Canadian testimony on this score is the dramatic conversion of Pierre Elliot Trudeau who, as a leadership candidate in 1967, had openly derided the Commonwealth as a poor-colonial vestige but had gone on to become one of its greatest champions and most useful innovators in the nineteen-seventies. This tradition has been carried on and, if anything, deepened by Canada's new generation of leaders, militantly anti-racist, sensitive to the need for diverse Canadian linkages around the world, and conscious of the fact that this association of one-third of the world's nations is one where the Canadian voice and influence can loom large.

Paradoxically, in spite of all the irritants it occasions for Britain, and its superficial unpopularity, the Commonwealth remains even more important for the old 'mother-country', a fact that will continue to make British dissociation unthinkable. If Britain were shorn of its world wide network of former colonial associations, and the 'influence' that is presumed to accompany these associations, Britain would stand substantially diminished in its other relationships, including those in Europe, and Britain's post colonial associations would be far more difficult to maintain if the Commonwealth link were broken.

It remains to be seen whether Canada and some other Commonwealth countries, can effectively work to bridge the wide gaps between Britain and some of its strongest adversaries in the association. Prime Minister Thatcher clearly did not see any mediatory potential in Ottawa, specifically targeting the Canadian Government in her attacks at Vancouver, and triggering universal outrage among other members, and even widespread reservations among the British press, at Kuala Lumpur. Given the current constraints on British ministers and officials in discussing these issues freely, it may be a crucial matter for informal dialogue among British and Canadian opinion-

leaders, and with those of the other Commonwealth countries, lest a unique shared channel for North-South relations deteriorates further.

Human Rights and South Africa

All governments have been faced, in recent decades, by the erosion of the assumption that the internal affairs of states are their own exclusive concern, and no business of other states.

The area of human rights, pioneered in many respects by Britain over the centuries, has been one of the frontiers of international concern, and South Africa's policy of apartheid has become the most prominent test-case for international response. While there are unfortunately still many contenders for international violations of human rights, most Canadians clearly accept the view of their government that apartheid demands especially focussed attention and action, given its nature as sustained, institutionalized and legalized racism in a country with adequate means to do much better. Canadian opposition to apartheid, like that of most Western countries, remained largely verbal until the mid-1980s, although the assertion of non-racialism that led to South Africa's withdrawal from the Commonwealth in the 1960s was one early test that was somewhat more demanding on Ottawa.

Since the 1984 constitutional changes in South Africa triggered the current sustained wave of domestic and international opposition to apartheid, Ottawa has taken a much more active role, and South African policy has become a serious point of divergence between Canada and Britain. The Canadian political leadership, in spite of continuing official reservations about over-stepping the limits of interference in internal affairs, has insisted on imposing tangible pressures and sanctions, and working actively to promote such measures on a co-ordinated basis internationally. The British Government, on the other hand, has imposed only a few such measures, urging that such actions are 'punitive', and add to the burdens of those already afflicted by apartheid, and that more 'positive' measures are more likely to promote constructive change. Britain is tacitly joined in this position by a number of other countries that have substantial links with South Africa, but are less willing to make the case, while the United States which had very substantial stakes, has actually gone further than countries like Canada in cutting back links and imposing sanctions of various kinds.

The Ottawa-London dispute on this issue has now flared up enough times and with enough heat to constitute a serious bilateral irritant between the countries, especially with two Conservative Governments in office. Ottawa has obviously not succeeded in convincing Mrs. Thatcher, or much of British opinion, that Canadian activism on this issue has not been mere 'grandstanding' and that Canada is well-informed on the dynamics of the region and has tempered its actions to take account of its relatively limited stakes and influence in South Africa. London, on the other hand, has failed to convince Canadians, or much of world opinion that its opposition to sanctions is not a sign of unconcern over apartheid or worse, even tacit sympathy with white supremacy. No one has contested Britain's substantial stakes in the country, in both economic and human terms, with some 800,000 British passport holders, but the articulation of British interests and values has been unclear to most observers. With all reasonable outsiders favouring an early negotiated end to apartheid and minority rule in South Africa, there are still many possibilities for both Britain and Canada to

play constructive roles in such a process, but under present circumstances the depth of their disagreements would make it difficult to work well in concert.

Immigration, Multiculturalism and North-South Relations

For both Britain and Canada, the issues of North-South relations have now taken on important internal dimensions in their own societies as a consequence of the influx of large numbers of Third World immigrants to both countries. Earlier in Britain than in Canada, but now on a major scale in both countries, racial tolerance and pluralism are being tested within society, and domestic practices are seen as being likened to foreign policy positions, and vice versa. These greatly intensified human linkages with the Third World have positive and negative aspects for both countries, with greater economic and cultural flows being a positive impact, while the importation of political and ethnic feuds from distant homelands is among the negative factors. The two countries have proceeded to cope with those opportunities and challenges in different ways, but it is probably fair to say that for each country this new 'human factor' has greatly increased the salience of North-South relations in its national life.

Notes

1. Canada's absolute contributions of net ODA first exceeded those of the UK in 1984, and did again in 1985 and 1987 while Britain's total was higher in 1986. As a share of GNP, Canada's ODA has averaged .48% over this period while Britain's has been .31%. Source: OECD, Development and Co-operation, 1988.
2. The early sections of this paper draw extensively on my 'Canadian Policies on North-South Relations' in Paul Painchaud (ed.) From MacKenzie King to Pierre Trudeau - Forty Years of Canadian Diplomacy 1945-1985 (Quebec: Les Presses de l'Universite Laval, 1989), pp. 129-143.
3. A possible exception was the changing pattern of immigrations flows, which saw a substantial shift in favour of Third World nationals.
4. Canadian ministers and officials have sometimes been quite candid about their strategy of attempting to exert leverage over the major Western countries (see references in North-South Encounter, (Ottawa: North-South Institute, 1977), p.39. Further valuable materials on the dialogue and on Canadian policy were assembled in The North-South Dialogue: Some Basic Documents, Ottawa: Department of External Affairs, 1977).
5. Because of the very short tenure of the Conservative Government, it is of course difficult to make definitive assessments of its directions. However, in spite of the problems caused by the Jerusalem embassy issue, and a sometimes misplaced emphasis on 'Cold War' and 'Free Enterprise' rhetoric in international discussions, the basic Canadian role and positions did not shift markedly.
6. See Canada, House of Commons, Parliamentary Task Force on North-South Relations, Report, Ottawa, Supply and Services, 1980, and North-South Institute, North-South Relations 1980-85, Ottawa, North-South Institute, 1980. The latter document is the report of a study commissioned by the Parliamentary Task Force.

7. See Stephen Krasner, Structural Conflict: The Third World Against Global Liberalism, (Berkeley: University of California Press, 1985).
8. For a longer term assessment of this theme in Canadian foreign policy, see Margaret Doxey, 'Conservative Internationalism', The Round Table, (1989) 311, pp. 288-304.
9. During the most recent round of controversy about Britain's position in the Commonwealth, following Mrs. Thatcher's isolation at the 1989 Heads of Government meeting in Kuala Lumpur, it was pointed out in the British Press that there was a post-war tradition for British governments being at odds either with the EEC or the Commonwealth, whereas Mrs. Thatcher had chosen to be at odds with both simultaneously.
10. One measured discussion of this question is in the H. Ronald Sanders, 'Is Britain Indispensable to the Commonwealth?' The Round Table (1987) 303, pp. 366-377.

7 A Commonwealth View of North-South Issues

Peter Unwin

The purpose of this paper is to examine current North-South issues from a Commonwealth point of view; and to point to a possible way ahead. It does not argue that the Commonwealth can hope to tackle the whole range of North-South issues alone. But it does suggest that the Commonwealth has a facility for reconciling differences; and for harmonising divergent view points. In this it has the advantage of an extensive framework for regular consultations. At the inter-governmental level, Commonwealth heads of government meet once every two years; and ministers and officials responsible for finance, labour/employment, agriculture, health etc meet regularly. As some Commonwealth members play important roles in other fora, such as the Western Economic Summits, the Group of 7, the Group B, the Group of 77 and the Non-Aligned Summits, the consensus reached at Commonwealth meetings helps to inform their positions at other meetings.

The Commonwealth has also been making extensive use of expert panels to bridge the North-South differences on complex international economic issues. Their recommendations, based on objective and technical examination, help to indicate the directions for compromise and consensus. Since the mid-Seventies, Commonwealth heads of government or ministers established a number of expert groups to make proposals towards the resolution of global economic problems. Their subject matter has tended to mirror the important contemporary pre-occupations of the international community. They dealt with: approaches towards a new international economic order and the establishment of a Common Fund in the second-half of the 1970s; the world economic crisis, protectionism, improving the North-South negotiating process, reform of the international financial and trading system, the debt crisis, and technological change in the first-half of the Eighties; and with unemployment, particularly of youth, the impact of structural adjustment on women programmes, and the environment - specifically the phenomenon of climatic change - in more recent years.

I recognise that the impact of these groups' work, measured in terms of practical progress on North-South issues is not dramatic. The Commonwealth reports, nevertheless, have been widely used and have helped to promote wider appreciation of Commonwealth's role. The former West German President, Dr Richard Von Weizsacker, on a state visit to Britain (1987), elegantly articulated this role of the Commonwealth in saying that 'it cannot negotiate on behalf of the world, but it can caution the world and help it to negotiate'. More recently the Prime Minister of Canada, Mr Brian Mulroney expressed the same sentiment: the Commonwealth provides a 'North-South dialogue that works'.

However, North-South dialogue over the last fifteen years has largely been frustrating: it lost momentum in the late-Seventies; and became moribund in the Eighties. While progress has been made from time to time in limited areas in dealing with specific problems, overarching efforts to deal comprehensively with North-South issues as at the Conference on International Economic Co-operation (CIEC) during 1975-77 in Paris, the Cancun Summit (October 1981), the UNCTAD Conferences, and through attempts to launch Global Negotiations at the UN General Assembly, have been unsuccessful. Reflecting this institutional failure, in most circles in the North and specifically in the major industrial countries, North-South issues are at present relatively unfashionable. The reasons are basically threefold.

Much opinion in the North believes that the expectations placed on the North-South dialogue in the 1970s were excessive. Few denied then, and few deny today, that the problems of many parts of the South are serious. To tackle these problems demands North-South co-operation. It is also generally recognised that the North has both a moral responsibility and an interest in such co-operation. But many expectations of the North-South dialogue, the confrontational way in which they were pressed, and the non-operational tenor of the exchanges which resulted produced a reaction which still affects judgment.

More recently, first strains in East-West relations and then dramatic events in East-West relations have tended to distract attention from North-South issues. These developments have not reduced the importance and urgency of these latter issues. Indeed, to the extent that they may tend to marginalise large parts of the developing world, they intensify its problems.

At the same time, the East has in recent years been seen to fail to sustain its competition with the West for influence in the developing world. The effect has been to lower somewhat the political priority of North-South issues in many Western minds and to reduce the South's already limited bargaining power. The Chairman of the OECD's DAC has also recently warned of the dangers of 'aid diversion' as a result of the new concern for Eastern Europe. In the long term, developing countries will surely benefit from a reduction in East-West tension and winding down of the arms race; but in the short run, it is Eastern Europe, not the developing countries which will benefit from any reorientations of trade and capital flows.

Another, perhaps the most important, reason why the South as a bloc has not commanded attention is that the North, and important parts of the South, have generally done well economically in recent years, so lessening the sense of crisis that prevailed at the end of the 1970s and the threat that was perceived to emanate from commodity, particularly oil, exporters.

For much of the Eighties, the developed countries have been very successful in reducing inflation, improving the competitiveness of their economies, overcoming shocks, such as the 1987 stock exchange collapse, and in maintaining a steady and sustained growth. The economies in South and East Asia, including China, grew even

more strongly, improving the living standards for a large proportion of the poorest populations in the world. From this experience derived an obvious, if somewhat complacent, conclusion: if the international economic system is working adequately, why change it? For these as for other reasons, therefore, the developed world in the late 1980s tends to attribute less importance in operational political terms to North-South issues than it did earlier. But the importance and urgency of traditional North-South issues are as great as ever. The economic problems of much of the developing world are responding slowly, if at all, to painful structural adjustment programmes. In many countries the problems of hunger, poverty and population are greater than they were a decade ago. Per capita incomes during 1981-88 declined by 3 per cent a year in Africa and by 1 per cent a year in Latin America. International agencies project that under present policies prospects for the 1990s are likely to be equally bleak. During the 1980s prices of primary commodities, on which many Third World countries depend for most of their export earnings, declined sharply and remained at record low levels. In 1986 alone, Africa lost \$19 billion, about one-third of its export earnings, due to a sharp fall in commodity prices in that year alone.

The debt crisis continues unabated with the ratio of debt to exports worsening further: from about 200 per cent in 1981 to 300 per cent in 1988 for the heavily indebted commercial borrowers, and from 179 per cent to 331 per cent for sub-Saharan Africa. Large debt-servicing obligations and a virtual drying-up of fresh commercial credits have, perversely, made many of these poor countries exporters of capital to the rich countries. According to the World Bank, there was a net transfer of \$50 billion from the poor to the rich in 1988, as against a positive net transfer in 1980 of \$48 billion.

It is estimated that the number of people living in poverty has increased from 820 million in 1980 to 950 million in the late-1980s. Third World child mortality is said to be 100 per 1000 live births; about 100 million each year. The rate of growth of population in Africa has increased over the past two decades; but increase in food production did not keep pace with it. Development remains an imperative, yet successful development is as elusive as ever.

As these basic problems have become more acute, a whole range of new issues have emerged which are susceptible, if at all, only to North-South co-operative solutions. They extend from drug trafficking and terrorism to questions of technology management, and they interconnect with established issues of North-South concern. The point is best illustrated by two examples, one recognised, one just beginning to emerge.

There is general acceptance today that environmental problems are serious and pressing. It is recognised that they flow primarily from the industrial development of the last 150 years which has shaped the developed world; and that unsustainable development in developing countries will add to the scale of the problem. There is agreement that some fundamentally important problems are global: the greenhouse effect, the hole in the ozone layer, the potential consequences of deforestation and the management of the 'commons' (the oceans, space and the polar regions). There is equally agreement that these and a broader range of environmental problems can be solved only by action at a whole range of levels from the global through the regional and national to the local. There is also general agreement that many environmental problems can be tackled only with financial, technological and developmental resources transferred from North to South. Press comment tends to focus on the extent of disagreement over the relative importance and urgency of different environmental threats and over ways and means of taking co-operative remedial

action. But the environment has, within the past five years, established itself as a major field for North-South co-operation. Indeed, major agreements - like the Montreal Protocol on CFCs, the Basel Convention on toxic wastes, and the proposed climate convention - are being reached with the active involvement of governments from North and South.

It seems possible that, within the next decade, migration issues will similarly establish themselves on the North-South agenda. Migration pressures arise from a variety of human woes: under-development, excessive population growth, famine and political crisis. Considerable political and social strains are already beginning to appear as a result, *inter alia*, of Mexican migration to the US and from the North African countries and Turkey to the EC. Even draconian border controls are proving an inadequate response. There is as yet little agreed doctrine on this subject to compare with that achieved on environmental matters. But it seems clear that a central element of doctrine as it emerges will be the need for international, and North-South, co-operation if these issues are to be tackled effectively.

It is also worth noting that both the environmental and migration issues derive from and affect the established and familiar economic development and population issues of the North-South agenda. The same can be said of the rapidly growing and apparently unstoppable growth in international drug trafficking. Like the other new issues, they add weight to the view that, however unfashionable they may currently be, North-South issues are not going to go away.

At the same time, we are beginning to see developments in North and South which may provide a more solid basis for North-South co-operation than was identifiable in the 1970s and the 1980s.

The first of these concerns the North-South relationship itself. It is no longer the bipolar relationship of old fashioned caricature with the guilt-ridden, white, rich confronting the primitive, coloured, poor. The rise of Japan, Korea and Taiwan, together with the newly industrialising countries of the Pacific rim has destroyed one-half of that caricature. India's emergence as the free world's tenth industrial power, and little-noted success stories like those of Botswana and Mauritius are beginning to destroy the other half. The North has much to gain, in terms of trade and investment opportunities, and greater political stability, from such progress.

Economic doctrines and attitudes have similarly changed. In much of the developing world faith in command economies was declining long before their failure was so vividly demonstrated in the Soviet Union and Eastern Europe. Recourse to mixed, market-regulated economies was growing. This shift in attitudes in developing countries did not dramatically narrow the gap between predominant philosophy in developing and developed countries, essentially because in the 1980s doctrine in the developed world moved further to the Right. But it is generally agreed that there is, at the end of the 1980s, a much greater identity of view between most developing and developed leaders of economic opinion than in earlier post-war decades. They put their faith less in central planning, state intervention and mammoth projects, and more in the working of the market, private investment, and the beneficial effect for all society of the pursuit of development through individual small and medium size enterprises.

A consensus is emerging that governments should do fewer things better, both in domestic and international economic affairs. Domestically, governments have an inescapable responsibility in respect of human resources, health and education, research, physical infrastructure, transport and communications, and to provide a framework of law and financial stability. There will need to be large, longterm flows

of development assistance to support these activities in parallel with private flows. Internationally, there has to be framework of order and multilateral rules within which trade and investment, and increasingly labour, can move freely and within which international 'public goods' such as control over epidemics, public health, environmental protection, combating terrorism, can be pursued co-operatively. These activities in turn, require strong multilateral institutions.

A proposition put to the Commonwealth Heads of Government Meeting in Kuala Lumpur in October 1989, by the Prime Minister of Jamaica, seeks to build on this emerging consensus. Mr Manley argued that the developing countries faced greater difficulties than ever. But there was a broad measure of agreement about the right measures to tackle these problems. He stressed that he was not asking for arrangements designed to accommodate inefficiency or make one part of the world pay for refusal by another to adopt prudent measures. But he suggested that, if there was general agreement in diagnosis, there might be general agreement on a cure. He therefore proposed that the Commonwealth should look closely at a study of new trends in the world economy and their impact on developing countries in particular and consider whether it afforded a basis for a meeting of a group of countries representative of developed, newly industrialised and developing countries. He envisaged this meeting as searching for concrete, problem-solving measures based on an agreed analysis of the problem rather than as a North-South confrontation in the old form. Mr Manley saw this representative group extending well beyond the Commonwealth, bringing in countries like the United States, Japan, the Federal Republic of Germany, Saudi Arabia and Brazil. But he looked to the Commonwealth to provide the drive to bring about such a meeting.

Heads of Government accepted much of Mr Manley's diagnosis. They recognised that the global political and economic climate was much more propitious for North-South dialogue than for many years, and that there was broad agreement on the principles necessary to bring about sound development. They invited Commonwealth finance ministers to consider a possible agenda as soon as possible and to make recommendations as to the appropriateness of such a meeting. There Mr Manley's proposal rests at present. Finance ministers' views will emerge in the course of 1990. There are many obstacles to be overcome on the way to the creation of a North-South dialogue such as Mr Manley envisages on a co-operative rather than confrontational basis. But it offers a way for North and South alike to tackle co-operatively a range of interlocking problems which all agree go beyond the capacity of any individual country or region. The proposal offers scope in particular for possible cooperation involving Britain and Canada. Both are members of the G-7, well-placed to wield influence in a range of international fora. Between them they generate over sixty per cent of the combined GDP of the Commonwealth. They seem well-placed to help Mr Manley's proposal through the Commonwealth finance ministers' review; possible endorsement by heads of government; and the launch of the proposition to the wider range of countries which could carry it forward from promising initiative to effective fulfilment.



PART IV
CHANGING ECONOMIC
AGENDAS



8 The Impact of the Canada-US Free Trade Agreement on Canada

Claude E. Forget

Few, if any, other issues have generated as many documents, studies, seminars, and stirred so much public controversy as the Free Trade Agreement between Canada and the United States.

Information about and analyses of the FTA already fill library shelves and many filing cabinet drawers. My problem in preparing these notes has been that of sifting through this mass of facts and opinions and to focus on what might be of interest to an audience such as this one.[1]

I intend to approach the discussion of the Canada/US Free Trade Agreement from the perspective of the benefits and costs which it is giving rise to. The economic benefits and costs necessarily are part of this picture, but my discussion will be conducted more from a political viewpoint than an economic one. The balance of economic advantages and disadvantages when appraised from outside the North-American continent appears much more unambiguously positive than it does when seen from within. However, the stability of a continental arrangement that represents a major turning point is probably much less politically obvious.

The Politics Of The Free Trade Agreement

For a few weeks in November 1988, the whole world, perhaps for the first time, paid some attention to a Canadian national election. The reason was that the Free Trade Agreement between Canada and United States had become the major issue in that election. Accordingly, the results of the election, giving a very substantial parliamentary majority to the government, were interpreted as a popular mandate to ratify it. This short-term impact of the FTA on Canadian politics is obvious enough.

What about its long-term political impact? After all, it has been pointed out that the two opposition parties, who together got some 54 per cent of the votes, were strongly against the Agreement.[2] Is the Free Trade Agreement irrevocable or is it destined to be put in question each time the country goes to the polls over the next decade? For those who must plan their North American investment and marketing strategies, the answer to that question is very important. Is the FTA the beginning of a new era on the North American continent or is it destined to be a short-lived episode?

My answer to that question is that the Free Trade Agreement is not nearly as vulnerable as one could deduce from the apparently ambiguous results of the last election or the several previous failed attempts to bring it about.[3] Indeed, the arrangement of economic affairs in North America arising out of the FTA is highly likely to be of a long-lasting nature. The reasons for the preceding assertion lie in the following facts.

Well before the Free Trade Agreement was ratified or even before negotiations got started in 1985, the mutual importance to both countries of the bilateral economic ties in investment and commerce stood at a high level and had been rising. The two countries are the biggest trading nations in the world. Twenty-five percent of American exports are destined to Canada, whereas fully three quarters of Canadian exports go to the United States. Each country is therefore the other one's best client. Not only has this long been the case, but the relative importance of this tie has been increasing over the last decade in spite of the efforts, or at least the desire, on the part of the Canadian Liberal government in the 1970s, to bring about a diversification of Canadian export markets, the so-called 'Third Option'.

The commercial success of some Canadian manufacturing firms in the United States, such as Northern Telecom, the well-known relative efficiency of the Canadian operations of some North-American car producers, had contributed in giving Canadians greater confidence in their competitiveness in the overall North-American market. That confidence was reinforced in the early '80s by the low value of the Canadian dollar vs the US currency, thereby opening up opportunities for many firms that had never before successfully exported to the United States. Also, starting in the late '70s, there was a growth of reverse direct investment flows from Canada to the United States, which brought the total of Canadian direct investment in the United States from a value equal to about one tenth of US direct investment in Canada to a level equal to about one fourth. This had created in Canada a constituency for non-discriminatory treatment of foreign investments and for a liberalization of cross-border investment rules.[4]

The failure of the third option trade diversification objective of the Liberal government period indicated that it might be hopeless to try to counteract strong economic forces working towards even greater integration of the North-American economy. The slump in commodity prices in the early 1980s brought about disillusionment with the new energy policy that had been adopted in Canada following the second oil price shock, and this disillusionment extended to most other resources-based strategies.

Finally, a growing protectionist sentiment and accompanying policies were coming to the fore in the United States. That persuaded more and more Canadians that we somehow had to find a way to get behind the rising wall of protectionism that the

United States was apparently determined to build around itself. For Canada, the situation had become a source of increasing worries. The list of Canadian exports threatened with or actually struck by countervailing duties had grown longer and longer. The most prominent items were lumber, special steel, cedar shakes and shingles, processed fish, and potash. There were fears that similar measures might be taken against pulp and paper, aluminum, and electricity exports.

In summary, many of Canada's most important export items were being hit or threatened because of America's impatience with a persistent trade deficit which Congress found easier to blame on foreigners than to correct.

All the above facts had been creating a situation where the government of the day almost had to conclude that a Free Trade Agreement with the United States was in the national interest.^[5] The Free Trade Agreement should therefore be seen as the result of economic forces much more than as a source of economic change. Canada needed to secure its access to the nine-tenths of a North-American market outside its borders. This was an inescapable conclusion and it also explains that while the debate in Canada was lively, and at times appeared unpredictable, there was in its outcome an underlying necessity.

Looking at the future, all those factors will remain relevant and can most probably be expected to make the maintenance of the Free Trade Agreement in its present form a necessity whatever happens on the political front.

Taking as granted all of the above, it might be still argued that the price Canada paid to get access to the American market was too high. If there were substance to this argument, and particularly if the fears expressed in that regard during the debate leading up to ratification eventually were supported by evidence about the actual operation of the Agreement, one might entertain a doubt that support for the Agreement could eventually vanish.

There are essentially two areas in which the future policy-making of the Canadian government will be constrained by the Free Trade Agreement and the commitments that it contains. These areas are the energy policy and the foreign investment policy fields where the FTA has produced a situation in which the sort of policy initiatives that the Trudeau government had taken will no longer, in the future, be feasible. Some would say that this is not so much a surrender of sovereignty as a fruitful exchange. However, judgment on the political benefits and costs of the Free Trade Agreement cannot be politically neutral. It is not easy to put even a dollar evaluation on the various economic benefits and costs involved. An evaluation of what was lost and what was gained in the field of policy-making crucially depends on one's preferences. A short description of the major headings under which these costs and benefits may arise will make that plain.

Let us first look at the constraints that the Free Trade Agreement places on the above mentioned two policy areas.

Foreign Ownership Policy Constraints Arising From The FTA

In the early 1970s, 60 per cent of Canadian manufacturing and mining was US - owned, as was 75 per cent of Canada's oil and gas industry. That period was one of intense concern both by a segment of the public and by government about the

assumed detrimental effect of such a heavy and concentrated dose of foreign ownership. This led the government of the day to set up the Foreign Investment Review Agency (FIRA) in 1973 whereby any foreign acquisition of a Canadian firm was subjected to an elaborate process of provincial and federal review, giving rise in many cases to requirements with regard to local employment, technology transfer, research and development, and in some cases external trade. Following the second oil shock, a new energy policy was instituted in the early 1980s involving tax and subsidy provisions that discriminated against foreigners.

Following the 1984 election, both policies were reversed. The threshold for review by Canada of foreign investments was raised substantially and the New Energy Policy was subverted by the fall in petroleum prices and the resulting crisis for firms that had overstretched themselves under the double influence of high oil prices and government encouragement. Dome Petroleum, the Cinderella of the Canadian petroleum industry, was eventually allowed to be sold to an American oil company, and in the aftermath of the 1982 recession liberalization of investment flows became the order of the day. The FTA has reinforced that trend towards liberalization. It implies a further lifting of the threshold for review by Canada of foreign investment projects. Trade related requirements on foreign investment are removed. However, the ability of Canada to require, in cases of foreign takeovers of Canadian firms, world product mandates, technology transfers, R. & D. commitments and guarantees of local employment, is grand-fathered. In the financial services sector, the Free Trade Agreement also reinforces the trend to deregulation. Disputes in this area are not subject to the general dispute mechanism provided under the FTA, but left to the US Treasury and the Canadian Finance Department to resolve. US owned banks are freed from restrictions on market shares (the previous 16 per cent ceiling on assets) and are now allowed to set up as many branches under their Canadian subsidiaries as they want. Also, the 25 per cent ceiling on foreign participation in Canadian banks is removed.

The general prescription for the future, under the FTA, is national treatment. That implies the right of establishment. The Agreement also contains an annex on computers and communication services that guarantees trans-border access to data banks, an issue that had been much debated before in Canada. Also the trans-border movement of management and professional personnel is facilitated by the FTA, an almost indispensable appendix to a world of continental rationalization and integration of business operations for most firms and industries. This liberalization on a continent-wide basis of investments and services has some limitations. For instance, transport industries are excluded because of opposition by US maritime interests, and cultural services also provide another set of exceptions because of the strong feelings in Canada about the need to maintain the country's cultural identity in the face of the overwhelming influence of the US cultural industry.[6]

Whether those provisions should be seen as a cost or a benefit obviously depends on one's point of view. Canadian nationalists who had strongly advocated a vigorous use of restraints on foreign investments may feel betrayed and may be expected to continue to fight what they consider unacceptable shackles on the policy-making ability of future Canadian governments. However, those nationalist policies had not been successful in over-turning the trend of increasing mutual penetration of the Canadian and US economies and, in the case of the energy policies of the early part

of this decade, had been so dramatically contradicted by events that support for those positions in the general public has probably been undermined for a long time.

Outside the energy field, foreign ownership is not a dead issue in Canada. The takeover of Consolidated Bathurst, a prime Canadian forest products firm, was achieved by Stone Containers of Chicago in 1988, and in the same year Commaasur, a leading property and casualty insurance company, was taken over by Nationale Nederlanden. On those occasions, many regretful (rather than angry) comments were heard from a wide variety of sources. In October of this year, the Federal Government blocked for a time the sale of Connaught Biosciences Inc., a major producer of vaccines and a leading Canadian research lab, to Institut Merieux S.A., a French pharmaceutical company. The other bidder was Ciba-Geigy Ltd. The fact that Canada is not really overwhelmed by investors from Europe, which both bidders hail from, was apparently not a factor in the government's reaction.

There has been, in Canada as elsewhere, a flurry of mergers and acquisitions business in recent years. That activity has involved Canadians as well as foreign players, as both raiders and targets. Canadians were very visible in the United States as corporate raiders when Campeau took over Federated Department Stores for \$ 6.4 billions, and Seagrams took over Tropicana Products for \$ 1.2 billions in 1988. In that year, Canadian firms took over \$ 10 billions worth of US corporate assets. Announced mergers and acquisition deals involving Canadian firms total \$ 20 billions in the first-half of 1989, as much as that for the whole of 1988.

Major banks' news letter have made much, perhaps too much, of the FTA as a factor in US and other countries' interest in Canadian firms. A causal relationship between the FTA Agreement and the foreign takeovers of Canadian firms is far from obvious. In the present context, there is a lot of Asian money seeking opportunities everywhere, not only in Canada. Japanese and Hong Kong Chinese investors are very much in evidence on the West Coast, but for many reasons. Britain's Bass plc. has acquired the Canadian company operating the Holiday Inn's chain in Canada. This summer, a flurry of speculative purchases of CPR and Alcan's shares lead to speculations about an eminent takeover attempt. There was a bid by US Imax for Falconbridge, but that takeover war was eventually won by Noranda, a Canadian firm. A US bid for the Quebec-based food retailer, Steinberg, was denied by a Quebec-based consortium.

This last example demonstrates that it is not easy for foreign bidders to gain control of Canadian companies. In this latter case, the foreign bid was for a higher price than the one that eventually won the deal. Many Canadian companies are closely held, and others have had time to develop defensive strategies. Many Canadian companies are widely held by virtue of legally imposed limits on the stake of any one shareholder. No one, not even a Canadian individual or company, can own more than 10 per cent of many categories of financial institutions. The Federal Government has been looking at series of changes in the financial regulations that would even further extend those restrictions.

According to a thoughtful analyst of financial regulatory policy, Professor Thomas Courchene, the competing strategies of Ottawa and the Quebec Government with regard to financial re-regulation may well share a common goal, that of minimizing the transfer of ownership of major financial and industrial firms to non-resident's hands. This suggests that if it remains important to Canadians to prevent so called

'heritage' firms from falling under foreign control, the FTA may not prove to be an unsurmountable obstacle.[7]

Policy Constraints In The Energy Field

The energy field indeed provides an interesting example of mutually beneficial constraints on policy making. Canada's recent oil energy policy has given the impression that the absence of constraints would work to Canada's advantage more than to the benefit of the United States. And indeed, the history of that policy certainly illustrates, if not how much Canada can benefit from arbitrary actions at least how nasty one country can be to another - even a friendly one. For instance, Canada interrupted petroleum export to the United States during the OPEC embargo, thereby contributing to the resulting shortages. It adopted in the late 1970s a national energy plan that phased down exports of oil to the US by the early 1980s. The National Energy Policy (NEP) itself involved measures to reduce foreign investments in energy producing firms, an export tax on oil, etc. However, the history of the relations between the two countries also provides several examples of American policy measures that were harmful to Canada. Among those, government imposed price ceilings on natural gas prices that impeded Canadian gas exports; quotas on oil imports from Canada that were in effect between 1964 and 1975; the abandonment of the pipeline project to Prudoe Bay, in Alaska, after Canada had built its portion of it, through Alberta and the North-West Territories; the denial of access to the West Coast electricity distribution grid to BC Power, blocking electricity exports by that province to California; the denial to Canadian exporters of uranium of access to US processing facilities leading to the closing down of Canadian mines, etc.

In keeping with the general principle adopted in its drafting, the FTA leaves many things intact. For instance, Canadian exports of gas to the United States will continue to be regulated, making it difficult to market aggressively in the US deregulated markets. The Agreement also leaves intact Canadian investment incentives to Canadian companies. However, Canadian producers of electricity, uranium, etc., will now be treated as domestic producers with regard to their access to electricity distribution grids, uranium enrichment facilities in the US, etc. Canada will no longer place restriction on exports and, in case of shortages, cuts in supplies will have to be apportioned between Canadian and American users on a pro rata basis. Electricity exports are in fact virtually deregulated under the FTA.[8]

In summary, the FTA, with regard to energy, makes it difficult, if not absolutely impossible, for Canada and the US to go back to interventionist policies pursued for various reasons between 1959 and the 1980s. On the whole, this seems to everyone's advantage, and the apparent loss in sovereignty of one country is balanced by an equivalent loss of sovereignty by the other. The motivation that Canada found in nationalism, United States found in consideration of 'national security'.[9] Within the perspective of Canadian nationalists, the constraints present in the FTA on Canadian policy making, with regard to foreign investment and energy matters, are the only two major elements that could conceivably be regarded as the cost of the FTA for Canada.

The Benefits Of The FTA

If those are the cost, what then are the benefits according to the same perspective? There are three categories of benefits. The first goes almost without saying: it consists in the gradual removal of tariffs over a ten year period. The second benefit consists in the machinery set in place by the FTA to bind the US administration and the Congress to certain rules with regard to Canada/US trade. The creation of an adequate and binding dispute settlement mechanism was one of the high profile issues that dominated the debate about the Free Trade Agreement. The dispute settlement mechanism would allow Canadian and American economic relations to be settled in a framework characterized by due process and the rule of law, as opposed to the give-and-take of bargaining between governments of obviously different sizes and power. Such an outcome (which is binding on the two participating governments more in terms of process than in terms of outcome) is obviously to the advantage of the smaller of the two partners. How real are the guaranties provided by the dispute settlement mechanism set-up under the FTA? This is what we will presently examine.

The third major benefit of the Free Trade Agreement consists in the economic benefits that are expected to result from the liberalization of trade and investment. A description of the size and reality of the anticipated benefits is left until later. However, as a political issue, it is important to note that the balance between the narrowly defined economic benefits and costs of the new trade context is necessarily shifting over time as the adjustment process goes on.

Initially, even if the anticipated benefits had been large and non-controversial, it was admitted by all concerned that there must be, in a process of structural change induced by Free Trade, a significant number of firms and workers who stand to make losses.

This is always an important political consideration at the time a decision is made, because of a widespread tendency to pay more attention to the anxieties of the anticipated victims than to the hopes and ambitions of the anticipated beneficiaries. However, five years from now, it can be expected that the victims will no longer be around to grumble. The faster the process of adjustment, the more rapidly attention given to the victims of the changes will fade. Bankrupt or extinct firms will no longer complain about Free Trade, and displaced employees will have found other jobs.

The Dispute Settlement Mechanisms

The FTA provides two channels. One, the so-called chapter 19 mechanism, is designed to deal with complaints arising from anti-dumping or countervailing duty decisions (AD/CVD) rendered in each country. At the request of either party, a bi-national expert panel can review the final AD/CVD. decisions in lieu of the judicial review otherwise provided for in each country. This bi-national panel's role will be to apply the test of compliance with domestic laws. Those laws stand unchanged as such by the FTA. The panel's intervention is to take place subject to strict deadlines and is intended to develop a set of common interpretations of US and Canadian

trade laws. This procedure for reviewing AD/CVD decisions is reminiscent of the practice developed within the GATT but appears more automatic and direct in its operation. Whether in fact it will be an improvement over the GATT procedure is something that only experience can resolve as there are arguments going both ways. However, a reasonable case can be made that the mechanism is probably better than the GATT procedure and could serve as a model for an improvement in GATT dispute settlement rules.[10] As important is that under the FTA (in contra-distinction to GATT) the issue of jurisdiction can no longer be raised. A plaintiff can set the machinery in motion and its care cannot be set aside for procedural reasons.

By the end of summer 1989 nine requests, eight from Canada and one from US producers, had been made under the chapter 19 procedures, including the setting-up of a bi-national panel. In one case, that involving pork products, the Canadian Government and the Government of Alberta had joined the pork producers, the Canadian pork council, and the Canadian meat council, as parties in the case.

Whereas other cases of complaints by Canadian producers concerned salt cod, raspberries and steel, as one could expect a complaint arising from the agricultural sector struck a particularly responsive chord at the political level. The crisis had arisen out of a three to two decision by the US International Trade Commission, in August, that Canadian Government subsidies to pork producers were causing material injury to US producers and had to be offset by an eight cents (Canadian) a kilo countervailing duty amounting to about four per cent of the selling price on Canadian pork products exported to the US. Canadian pork exports to US amount to some 500 millions \$ a year, or 25 per cent of Canadian production. Spokesmen for the industry claim, perhaps with some exaggeration, that the four per cent levy might cut those exports in half.

The Canadian industry asserts that US pork producers are equally subsidised by their own government. This suggests, according to trade law experts, that one of the most sensible proposal for a subsidy code would be to require a plaintiff to prove that it is not itself receiving a subsidy.[11] A more widely suggested approach is to require the plaintiff to base his claim on the presence of a 'net subsidy', i.e. a subsidy in the country of origin of the goods greater than the subsidy in the country of destination.

Beyond this specific dispute settlement mechanism, there is a wider dispute resolution mechanism that also has the responsibility of 'managing' the agreement: the Canada/US Commission. This commission is made up of two cabinet level ministers responsible for international trade in each country whose functions are to hear and examine any complaint by any of the two parties, with regard to a measure that may affect the FTA. The Agreement provides for advance notices of any such measure, and also provides for prompt response to enquiries or complaints by the other party and for consultation between the parties with the issue eventually being referred to the Commission which, within 30 days, must choose between binding arbitration or the setting-up of an experts panel. The penalty for non-compliance with binding arbitration lies in an explicit permission for the aggrieved party to retaliate.

The first test of the institutional mechanism set forth in chapter 18 of the FTA, arose in mid October when the bi-national panel created under those provisions rendered a decision on Canada's landing requirements for salmon and herring catches. The source of complaint was a Canadian requirement that fish caught in

Canada's economic zone on the West coast had to be landed for inspection in a Canadian port. This was justified by the alleged need to control catches as a means of conserving and managing fish stocks. The panel found that the 100 per cent Canadian requirement was in violation of Free Trade principles. However, the panel added that a limited amount of those fish, ten per cent to twenty per cent of the catches, could be made available to foreign buyers directly from Canadian fishermen without being landed in a Canadian port. The background to the story was that Canada had earlier lost that case before a GATT panel. As a result, the Canadian Government changed its regulations to stress its conservation and supply management objectives, and dropped its former requirement that the fish be not only landed but processed in Canada. It is the new rules incorporating these well-sounding principles that were tested under the FTA panel procedure. However, the protectionist motives of those within the industry that had supported the requirement came to the fore when the panel's decision was announced. Mr. Jack Nichol, president of the US Fishermen and Allied Workers Union, referring to some 8 millions pound of unprocessed salmon that had been sent to the US during this year's strike by Canadian processing workers, said: 'that 8 million pounds represents a lot of jobs for Canadians and I think that it is just the beginning of it'[12]. Also, it is uneconomic to land the fish in Canada and not process it there. The Solomon-like nature of the decision, giving a clear victory to neither party, seemed to indicate the partial success of the FTA arrangements, at least from a Canadian perspective. The most possible result would have been a decision rendered by a panel split along natural lines.

The dispute settlement mechanism provided for under the AD/CVD (chapter 19) heading is designed to last for a period between five and seven years. In the mean time, a working group has been set up to try and determine agreed rules that would be applied by both countries. Those rules turn around agreed definitions of what constitutes a subsidy; a most difficult exercise that will take place in parallel with a similar activity undertaken within the framework of the GATT negotiations. Indeed, the agenda of the working group already established is to wait for some results to emerge from the GATT negotiations about subsidies and, in the mean time, to conduct a factual examination of subsidies actually in use in both Canada and the United States. In both countries, research institutes have already begun to make contributions to this aspect of the work and preliminary data is already available.[13]

Those preliminary findings can be summarized as follows. In the United States, the average rate of subsidies for non-agricultural industries was estimated at 0.5 per cent for 1984. If R and D works included in defense procurement were included as a subsidy in the US, the figure could rise from 0.5 per cent to about 2 per cent. Those figures relate only to subsidies from the US Federal government. In Canada, for the same year (1984), the estimated average rate of federal subsidies stood at one per cent. However, this is probably an under-estimate because no account is taken of tax expenditures for which very limited information is available. However, in Canada more than fifty per cent of the subsidy flow apparently comes from subsidies to the oil and gas industry, and those elements have been dismantled since 1984, the year for which the figures were computed.

As a result, for the most recent year, one could deduce that the rate of non-agricultural subsidies would be about equal in the two countries at about one half of

one percent. However, for Canada as for the United States, only federal subsidies have been taken into account in the calculations made available so far. Also, in the two countries, subsidies tend to be highly concentrated in a small number of industries and, strangely enough, largely the same ones in the two countries, namely the oil and gas industry and the transportation industry.

Obviously, much work remains to be done to provide a complete and useful description of subsidies in the two countries. Because of the concentrated nature of the subsidies, they may be more significant for trade flows than the overall averages suggest. Aside from data collection and analysis, one of the major difficulties in arriving at a set of commonly agreed rules with respect to subsidies is a perceptual one. The US Congress is persuaded that Canada uses subsidies far more systematically than the United States because of the traditional image of the Canadian government as being more interventionist, and as supporting social policies of a far wider nature than corresponding American programs. In that regard, there is a substantial disparity of views between congressmen and US agencies responsible for the implementation of trade laws. That was demonstrated a few years ago in the case of the Canadian fishing industry whose exports to the United States were challenged before the US International Trade Commission.[14] The Canadian subsidy rate for the fishing industry (estimated by some to be as high as 23.7 per cent but found by the US ITC in its final determination to represent 5.8 per cent) was clearly large enough to affect trade flows. However, one point about those subsidies to the fishing industry is worth noting: about half the subsidies reflected federal contributions to the fishermen's special unemployment insurance benefits. In the US countervailing duty case, the US International Trade Commission did not consider fishermen's unemployment insurance to be a countervailable subsidy because the contribution rate was the same as in other industries!

This discussion of unemployment insurance in connection with trade policy is an interesting reminder of the wider fears about the reduction of Canadian sovereignty that the FTA may imply. During the debate preceding the last general elections in Canada, it was argued that the FTA would trigger a drift in attitudes about a whole range of issues that would make impossible over time the maintenance of a distinctive Canadian identity and a corresponding set of distinctive Canadian policies in a variety of fields having nothing to do as such with trade. For instance, it was feared that Canada's national health insurance program would not be sustained, that the unemployment insurance program would have to be drastically revised, and that Canadian taxation policy would have to align itself with US taxation policy, because of competitiveness considerations.

The recently appointed Canadian co-chairman of the Subsidies and Trade Remedies Working Group said in that regard: 'I hope we can satisfy people that the 'FTA' is not a threat to social and cultural programs and will not detract from our ability to undertake policies of regional equalization'.[15]

However, in the last few months, Canada has entered a period of intense debate about the adoption of a tax on value added that Canada will call a goods and services tax. While it is to be expected that many features of the tax give rise to opposition and protest, the fact that the United States do not have a tax on value added has not prominently figured in the debate, and has so far done little to undermine the basic acceptance of the principle of the tax as opposed to many of its detailed features.

Similarly, Parliament has been looking at a bill to modify certain aspects of the unemployment insurance program and, here again, question of whether or not the resulting program would create difficulties with regard to competition with United States firms that face decidedly lower unemployment insurance costs has, I believe, not been mentioned by anyone.

To my mind, this is obviously as it should be. General policies, whether they be in a social arena or elsewhere, affect the competitiveness of Canadian industry in the same way as many other given features of the Canadian economy, such as our climate. It would be futile to try to equalize all those determinants of competitiveness between Canada and the United States. In any case, those various influences, some going in one direction, and the others going in the opposite one, are factored into the US/Canada dollar exchange rate.[16] As the US International Trade Commission has rightly observed, general policies are not at issue and the emergence of the Free Trade Agreement will not change anything in that regard. It is only policies that have a disproportionate impact on this or that particular and narrowly defined sector of the economy that could become controversial and the proper subject for a dispute between the two countries.

In May, a leading article in the Globe and Mail, referring to a declaration by Chrysler's chairman, Lee Iacocca, complaining about the high cost of employee's health care plans to US employers, and suggesting that Canada's National Health Insurance was preferable, went on to say: 'As a generally available social program, Medicare cannot be construed as an unfair subsidy to companies located in Canada. Even if it does provide a competitive advantage, it cannot be used to trigger punitive duties under either the Free Trade deal or international rules.... During last year's election, Canada was flooded by fearful predictions that Free Trade would mean the end of Medicare and of the rest of the country's social safety net. Trends South of the border now show just what nonsense much of that was'.[17]

Economic Impact Of The Free Trade Agreement

To make a presentation about the benefits and costs of the Canada US Free Trade Agreement without a discussion of its economic impact would be like staging Hamlet without the Prince of Denmark. After all, Canada and United States did not get into such a complicated set of negotiations and constraints just in order to achieve a slight improvement on their mutual dispute resolution procedures. Overall estimates of the economic impact, in terms of gains and losses in production and employment, are as numerous as they are unexciting. As typical of such exercises - many here will recall similar calculations made in anticipation of the British entry into the European Common Market - the figures suggest anything from a net one per cent to nine per cent annual gain in gross domestic products.[18] The most credible estimates are found at the low, but positive end, of that range. The net gains naturally allow for substantial losses of production and employment in specific sectors. Those are the figures that the union movement and other groups opposed to the FTA chose to highlight during the debate, about whether or not Canada should ratify the agreement.

However, more interesting than these overall estimates are some of the more specific implications which suggest that the FTA will not only help in making North-Americans in general, and Canadians in particular, slightly more prosperous, but that it will change, in sometimes dramatic fashion, the way in which their economies operate. In a survey of its members done by the Canadian manufacturers association, in April of this year, almost sixty per cent of respondents said they believe there would probably be no substantial change in the way they operated.

However, very few felt that, under the FTA, they would decrease their investment in their Canadian operations (less than ten per cent). Also, few (about twenty per cent) thought that the FTA might have a trade diversion impact away either from Canadian suppliers or non North-American suppliers. However, more than forty per cent thought that there would probably be a rationalization of the products they manufacture. For instance, in one industry, that of tire-making, this rationalization is currently bringing some \$ 1 billion in investments to Canada, largely, as the result of decision made by non North-American tire-makers. This includes a \$ 500 millions expansion by Michelin's tires to expand production at its three Nova Scotia plants. Over \$ 300 millions have been committed by Goodyear to build a plant in Ontario, and \$ 160 million by General Tire, subsidiary of West Germany's Continental AG, to modernize and extend its Ontario plant. In addition, Firestone Tire and Rubber, now a subsidiary of Japan's Bridgestone Corporation, plans to spend a very substantial amount to increase capacity at its plant in Quebec. All those investments are made with an eye to the entire North American market. This process had been started by provincial subsidies and federal duty remission programs initiated in 1986, allowing Canadian-based plans to import US-made lines duty free as a counterpart for equivalent sales of Canadian-made tires in the US.

This example of rationalization, obviously borrowed from the successful auto-pact between Canada and the US in operation since the mid 60s, will now take place on an economy-wide basis. This represents a cost free increase in productivity for the two economies, but an opportunity more significant for Canada than for the US given their respective market sizes. The regional pattern of support and opposition to the FTA suggests that there may be, in that agreement, a potential for the reduction of Canada's regional income and employment disparities. North-South links traditionally discouraged by Canadian economic policy should now be expected to revive to the relative benefits of the Atlantic provinces and the West coast. As is well known, Ontario was the only province that actively campaigned against ratification of the FTA, although it should be said that PEI also objected. In recent years the gap between areas of low and high unemployment in Canada seems to have been increasing. In 1988, unemployment ranged from 3.6 per cent in Toronto to 19.2 per cent in rural Newfoundland. In a study of forty regional labor markets done by Statistics Canada recently, it emerged that in 1985 six of the ten markets with the lowest rate of unemployment were in Southern Ontario or in neighboring markets. Three years later, all ten low unemployment rate regional labor markets were in Southern Ontario or adjacent to it. This disappointing result comes after twenty years of persistent and expensive efforts by the Federal Government to reduce regional disparities, something which Canada has been less successful at doing than most other countries with a large land mass and a scattered population, such as the US and Australia. It may be ironic that the FTA, that many saw as a major threat to the

maintenance of those policies, might in fact turn out to be more successful at reducing regional disparities than any of the previous policies have been.

The FTA represents a carrot-and-sticks approach to the sick industries concentrated heavily in Quebec, by giving them maximum opportunity and incentive to differentiate their product and find a market niche where they can continue to prosper or else disappear. This high risk strategy has had strong support within Quebec industry circles as well as from the Quebec Government.

Indications of investment spending intentions by Canadian businesses were revised upwards in July from the level anticipated in March. The anticipated level of spending on investment for 1989 is up 11.1 per cent from 1988 actual investment spending figures while investment intentions in the manufacturing sector are up 27.9 per cent over last year. Some analysts have obviously attributed this strong rising trend to the FTA. As with all these statements, they are hard to prove. Probably the least that can be said is that the rise in investments in Canada for the past two years is certainly not inconsistent with such an explanation, bearing in mind that an investment boom can also be observed in other countries. Undoubtedly also, should there be a recession, any major layoff or plant closure likely to occur will be blamed by the Canadian Trade Union Movement on the evil influence of the FTA. In the last few weeks General Motors announced the closure of a car manufacturing plant in Canada, an unsurprising development given the known excess capacity in the North-American car industry.

None of the above departs from the general context of optimism within which the FTA was launched in Canada. Indeed, without that underlying optimism, the FTA would never have come about. The Agreement was strongly defended and promoted by the Canadian business community who, perhaps more than the Government whose life was at stake, provided the leadership in the debate. Business leaders defended and promoted the FTA with the US as an unique source of business opportunity for Canada. This, to a large extent, must be a self-fulfilling prophecy. This mood of optimism was seen to remain effective even after the FTA was signed on the 2nd of January 1989.

In the report of the Advisory Council on Adjustment, a body created in January 1988 to advise the Government on the requirements for optimizing adjustment in a competitive global context, and in particularly in the context soon to be created by the FTA, the major recommendation, that, in a sense, caps all the others, was to the effect that Canada need not create any new mechanism or program in order to improve its ability to adjust to the economic changes and challenges of world competition and Free Trade with US. In its report entitled 'Adjusting to win' (an uncharacteristically bombastic title for the report of a Canadian organization), one can read the following rather self-confident assertion: 'adjusting to changing circumstances has been a constant challenge for Canadians. And evidence suggests that they have been relatively good at it'. [19]

Conclusions

In summary, Canada has given up some discretionary powers in policy making over areas that had in the past being tempting policy targets for Canadian nationalists. The

fact that those policies were not notable successes, to say the least, lessens the feeling of loss. In any case the Free Trade Agreement in both areas merely reinforces a policy direction that had already been adopted for internal reasons. As a compensation, Canadians get similar restraints on US policy-making discretion that had not infrequently been used to frustrate or threaten legitimate Canadian economic interests. The dispute settlement mechanism instituted by the Free Trade Agreement certainly falls far short of the Treaty of Rome's obligations and institutions. They probably are an improvement over the GATT dispute resolution mechanism, but only experience can tell how much of a real improvement they are.

Finally, the balance of benefits and costs, once the adjustment process is largely completed, will look more favorable than it did when the accord was negotiated. This is politically significant if one has to assess the viability of the FTA because, as the years go by, the vested interest within Canada working in favor of the maintenance of the accord will grow at the expense of those groups and firms who saw it negatively, and even more so if they were confirmed in their fears. It is indeed a paradox given the history of seven failed attempts to negotiate a free trade arrangement between the two countries to say that the FTA is an irreversible event whereas it looked almost impossible to achieve just a few years ago. The underlying reason is that political realities have caught up with economic realities. This, in this case as always, is the essential reason for stability.

Notes

1. In this literature, leaving aside the various studies and tracts published to advocate adoption or rejection of the FTA, one can mention the useful 'Understanding the Free Trade Agreement', edited by Donald M. McRae and Debra P. Steger, IRPP, 1988, and also 'The Canada - United States Free Trade Agreement: the Global Impact', IRPP and Institute for International Economics, 1988.
2. Lloyd Axworthy, 'Will the Free Trade Agreement Affect Canada's Sovereignty?' in Understanding, p. 237.
3. That history is briefly reviewed by Murray G. Smith in 'The Canada - US FTA' in 'The Free Trade Agreement in Context: a Canadian Perspective', p. 37. For a fuller treatment, see Sperry Lea, 'An Historical Perspective' in Perspectives on a US Canada Free Trade Agreement, edited by R.M. Stern, P.H. Trezise, J. Walley, Brookup Institution, 1987.
4. See Alan M. Rugman, 'Outward Bound: Canadian Investment in the United States', Canadian American Committee, 1987.
5. That recognition was helped along by the major conclusion, in support of such an arrangement, of the Macdonald Commission. The Commission's report appeared in 1985 a few months before negotiations were initiated.
6. See 'The National Treatment Commitments' by C.J. Lohmann and W.C. Murden in Understanding the FTA, pp. 147-164.
7. Thomas Courchene, 'Crumbling Pillars: Creative Destruction or Cavalier Demolition?' Queen's University, 1989.
8. However electricity imports into the United States are not deregulated, as illustrated by the recent refusal of the State of Maine regulatory agency to

- approve the contract for the long term import of electricity from Quebec for lack of sufficient advantages to Maine consumers.
9. For a fuller discussion of this question, see 'Implications of the energy' by P.K. Verleger, Jr. and 'Comments' by Marshall Grove and James T. Jensen in 'The Canada - US FTA....', pp. 117-136.
 10. For a lively discussion of the merits and deficiencies of the chapter 19 process, see G.N. Horlick, G.D. Oliver and Delma P. Steger, 'Dispute Resolution Mechanism', in 'The Canada - US FTA....' pp. 65-100.
 11. Fred Blaser, Gary Horlick 'Canadians May Fight US Countervailing Laws', The Financial Post, 25 August, 1989, p. 10.
 12. The Financial Post, 17 October, 1989, p.3.
 13. For a brief review, see J.F Bence and M.G. Smith, 'Subsidies and the Trade Laws: the Canada - US Dimension', in International Economic Issues, April-May 1989, IRPP. Similar but more elaborate discussions can be found in a report of the C.D Howe Institute, by Alan Rugman and Andrew Anderson, Toronto 1989, and for the National Planning Association, Washington 1989.
 14. The Fresh Atlantic Ground Fish case.
 15. Quoted in a Financial Times Interview, 25 August, 1989.
 16. By drawing attention to the exchange rate, we are immediately reminded of the importance of monetary policy in a free trade context. In the mid-eighties, the Treasury Department were heard suggesting that Canada had an undervalued currency and was therefore unfairly gaining market shares in the US. With an almost 400 basis point Canada/US differential in interest rates in 1989, this has not been an issue recently.
 17. Globe and Mail, 15 May, 1989.
 18. R. Harris, 'Economic Impact on Canada' in 'Building a Canadian-American Free Trade'. Edited by E.R. Fried, Frank Stone, P.H. Trezise, Brookings Institution, 1987, and other contributors in this publication. Also A. Rotstein: 'A Balance Sheet on the Free Trade Agreement' in 'Assessing the Canada - US Free Trade Agreement', edited by M.G. Smith and Frank Stone, IRPP, 1987.
 19. 'Adjusting to win', report of the Advisory Council on Adjustment, Ottawa, March 1989.



9 International Economic Challenges: technology, mercantilism and 1992

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Introduction

The purpose of this paper is to present some thoughts on current developments in technology and their impact on Europe. In particular it will argue that 1992 and the Single European Act are, at least in part, the product of important and far reaching changes that are taking place in the technological underpinning of industrialised societies, and the new technological challenges facing all industrialised nations. The European response to these challenges combines, on the one hand, a shift towards liberalisation and de-regulation, and, on the other, substantial increases in the concentration of industrial power with many of Europe's major companies becoming substantial players within the global market place. The paper argues that the Community's policy is to try to ride the balance between the forces of competition and concentration, using the threat of global competition as a deliberate control on the power wielded by these large companies within the internal market; and that Fortress Europe is the wrong interpretation of current developments. Nevertheless, there is a protective element in current European policies, which is apparent in the very definite desire to promote and maintain a European presence in most major areas of new technology. It is argued that these could be exacerbated by the increasing tendency towards technological mercantilism which is now emerging in US trade and technology policy, and that the world will be a poorer place if such tendencies should become dominant.

Global Trends in Technology

Throughout the history of the industrialised world technology has not advanced smoothly and continuously, but rather by a series of fits and starts, with periods of intense technological activity succeeded by periods of seemingly near stagnation. In part this pattern reflects broader macro economic developments, not least the advent of war and its aftermath and fashions in economic management, or mismanagement. A period of rapid growth usually coincides with an upturn in investment ratios which in turn brings the rapid diffusion of new technologies prevalent at that time. Vice versa, a period of economic stagnation means low investment and little perceived technological change.

If economic factors influence the perceived pace of technological change, the reverse is also true. Technology itself has strong cyclical characteristics, seen most poignantly in the major waves of investment that have followed developments such as the steam engine, railways and electricity. The economist who has given his name to these long 50 year cycles is Kondratieff, the Russian statistician who first observed their periodicity. But the technological explanation of these cycles derives from the work of Joseph Schumpeter, who put particular emphasis on the clustering of innovations, great and small, around the major breakthroughs, and on the periods of 'creative destruction' in the early phases of the long cycle as new technologies supersede the old'. [1]

A resurgence of interest in Schumpeter's ideas has come in the 1980s with the slower growth of the major industrialised economies, and the simultaneous emergence of important new technologies, in particular micro-electronics and information technology. It is difficult to know how important current developments will appear 20 years on. Christopher Freeman, a leading exponent of the long wave approach, likens developments in information technology to the advent of electricity which, over time, brought major changes not only to the workplace, where electricity replaced steam as a far more adaptive and flexible source of motive power, but to the home, with the plethora of new domestic appliances, and to leisure activities where such developments as radio, TV, the cinema, would have been impossible without electricity. [2] Indeed, he and writers such as Piore and Sabel go further and see in current developments in micro electronics a new industrial divide which puts behind us the old Fordist principles of mass production and looks to a new industrial era of cooperation and flexible specialisation. [3]

Whatever the view taken of the long term impact of today's new technologies, few would deny that we seem once more to be in a period of major technological change. New technologies, microelectronics, information technology, new materials technology, biotechnology, are reducing costs and improving and expanding the range of goods and services available. Moreover, these new technologies are not restricted to one industry but affect all industries leading to a reinvigoration of the old as well as the development of the new. The technological discontinuity implicit in this scenario, however, has important implications. It requires the wholesale renewal, over time, of equipment and skills and in so doing destroys established positions of power and offers opportunities for new entrants. This leads to an intense jockeying for position in the new power structure which is emerging and in turn intense competition between old and new players.

Economic liberalism is both a response and a symptom of these changes. It reflects both the difficulty many countries have in assimilating new technologies into

old industrial structures and the need to open ossified institutions to new entrants. The Schumpeterian view, reflected in the writings of Freeman and Piore and Sabel, is that technology is inextricably bound up with organisational, social and managerial aspects of society; technological discontinuities therefore imply major changes in the institutional and social aspects of society. In previous cycles, three phases can be identified: the first when new technologies emerge but do not diffuse or combine thoroughly; the second when there is widespread diffusion accompanied by major institutional innovation both to help assimilate new technologies and to offset their (often) negative distributional effects; and the third mature phase when there is considerable growth along established trajectories.

The world at present would appear to be in the second phase. The institutional changes are occurring in various guises:

- i. in production and distribution, with new approaches, particularly following the Japanese, in the organisation of productive activities. E.g the emergence of networking, joint ventures and collaborations, just-in-time techniques, quality circles;
- ii. in the very processes of technological change as new techniques cut across established boundaries of productive organisation. E.g CAD/CAM integrates design with production; biotechnology requires project teams which combine chemists and biologists with information scientists and engineers;
- iii. in intra- and inter-industry structures as new technologies require industries to redefine core activities and diversify outside traditional areas;
- iv. in regulatory structures, with new industries requiring new regulations e.g. genetic engineering, and because new technology often makes nonsense of old regulatory structures e.g. in telecommunications.

Technological Trends within Europe

These technological trends have not passed Europe by. Along with other parts of the world much attention has been devoted to developments in new technologies; and governments both at national and at Community level have encouraged and aided industry both to develop the new technologies themselves, to encourage their workforces to acquire new skills, and to apply these new techniques and new skills to existing activities. Europe, however, has perceived itself to be a follower and not a leader in the new technologies. The locus for much of the innovative activity, and a great deal of the publicity, seemed to be the US or Japan, and as a consequence, many European businessmen wrote off Europe's own performance. Views were summed up by the Wall Street Journal headline on 31 January 1984 which read 'Europe's technological erosion leaves huge competitive gap'. In the subsequent article it was Europe's own businessmen who were writing off their own capabilities and chances of catching up with competitors. The sea-change in attitudes that has taken place in the last five years can best be illustrated by another headline. Le Monde for 3 November 1988 carried the headline 'Europe's technological capabilities have shown a spectacular improvement.'

The reality is less spectacular but not unimpressive. Table 1 looks at the R&D performance of the main European countries alongside that of Japan and the US over the years 1967 to 1985. What is notable is that while Western Europe's performance as a whole is less good than that of its competitors, the performance of some countries

within Western Europe, notably West Germany and Sweden, is as good as, and in some cases surpasses that of Japan. In particular, industry's own contribution towards R&D, which reflects firm level commitment to innovation and growth, is as strong, indeed in the case of Sweden stronger, as in Japan. This is reflected in patenting performance which is charted in Tables 2 and 3. Again, in Western Europe, West Germany and Sweden have strengthened their position, as has Switzerland, whose high per capita figure reflects the concentration in that country of the chemical and pharmaceutical industries which are highly patent intensive. Table 3 charts patent performance between sectors in each country: a figure of 1 indicates average patent performance of that sector for that country; above 1 indicates above average performance and below 1 below average performance. This table brings out very clearly West Germany's strong performance in the chemical and mechanical engineering sectors, including cars, with the UK now sharing that strength in chemicals and Sweden the strength in the engineering sectors. Western Europe's worst performance came in the electronics sectors where all countries recorded a worsening performance in both consumer electronics and in electronic capital goods.

Why should Europe's performance have been so poor in the electronic sectors? It was not for lack of funding. Companies and governments in Europe have over the years committed considerable sums to research and development in this sector, it having been identified in the 1960s as an important 'strategic' area of new technology. Indeed it was in the 1960s that Servan Schreiber, in his book *Le Defi Americain*, first developed the idea of the technology gap and the dangers of technological dependency. In those days the threat was the United States, and particularly IBM. Today, Japan's growing ascendancy in all aspects of information technology raises slightly different fears. The danger, as perceived from Europe, is that the US response to the Japanese challenge in these sectors will be to limit access to US technology for all comers, whether European or Japanese. Technological dependency does not matter if there is open access to technological knowledge. If that access is denied, it is imperative to develop and strengthen Europe's own capabilities. This is the logic that underlies current European efforts to improve performance in its information technology sectors.

Ironically, it was the response to these earlier fears of technological dependency that paved the way to the continuing lack of competitiveness of the European electronics industry. For the response of European governments at that time, the late 1960s, was not only to subsidise but to restructure the industry into firms of a size to compete with IBM. In Britain, ICL was created as computer 'champion', GEC for mainstream electronics, Plessey and Ferranti as specialists in the defence field. In France, Bull, Thomson and Matra were the equivalent trio. In West Germany, Siemens, Bosch and AEG, though less explicitly subsidised, were clearly regarded as national firms to be nurtured. Only Phillips developed as a truly European firm, although its policy at that time of decentralisation to the national level, meant that its local subsidiaries, such as Mullard in the UK, were usually given the status of local firms and enjoyed the same subsidies and public purchasing privileges.

Above all it was the public purchasing that marked out these 'national champions', and in particular the privileged markets they enjoyed in two major areas of electronics, defence and telecommunications. Here protection was absolute and markets guaranteed. Indeed in telecommunications, equipment markets were openly shared amongst members of each national suppliers' club. Sadly, far from creating firms which could compete with IBM, the policy fragmented the European market, in telecom-

munications equipment, for example, there were seven competitors in a market that could support at most three, and peopled it with firms whose petty fiefdoms yielded sufficient profit that there was little incentive to compete elsewhere. To make such companies competitive required exposing them to the chill winds of competition, yet few of them were really in a position to stand up to the exposure.

The ESPRIT Programme

This was the dilemma facing Vicomte Davignon as Commissioner for Industry in Brussels in the early 1980s. He was well aware that the days of easy life were over for most of these companies. The rapid advance of the major Japanese companies into semiconductors exposed European failures, while developments in telecommunications technology, particularly the advent of satellite transmission and cellular radio, were eroding the monopoly positions of the PTTs. With deregulation in the US unleashing AT&T and IBM to compete in international telecommunications markets, there was likely to be a free-for-all in what had been highly protected markets. If they were to survive it was therefore essential to shift the European firms away from their national orientation and increase their competitiveness. His answer was to summon the heads of Europe's Twelve leading electronics firms - it was called Davignon's Round Table; to tell them in no uncertain terms that unless they put their firms in order they were likely to find themselves 'rolled over' by competition from Japan and the US; and to offer them a life-line in ESPRIT - the European Strategic Programme for Research in Information Technology.

ESPRIT was in fact modelled on the Japanese VSLI (very large scale integration) initiative of the mid-1970s and envisaged a collaborative programme of pre-competitive research in a number of areas of electronics and information technology. Davignon's initial proposals were modest - a pilot scheme costing 11.5 m Ecus which committed the participants only for a year. This was launched in 1983, and was a sufficient success that soon after its launch the go-ahead was given for the first full ESPRIT programme for the years 1984-88 with an expenditure of 750 m Ecus. This has now been succeeded by the second phase programme for the years 1988-92 at a cost of 1.6 billion Ecus. Industrial expenditures match Community contributions on an Ecu for Ecu basis, so that actual expenditures are double those quoted above.

Symbolically ESPRIT has been of far greater importance than either its expenditures or its specific projects would imply. There are four main reasons for this:

- i. it marked a new departure in style for Commission programmes based on 'demand led' projects, where teams of companies and research groups bid by project in broadly defined programme areas rather than having an agenda dictated by the Commission;
- ii. it provided a model for the development of further programmes such as RACE (Research in Advanced Communications for Europe) and BRITE (Basic Research in Industrial Technologies for Europe);
- iii. it proved to be a turning point in confidence which has helped to bring about a reshaping of European industry to meet the challenge of Japanese and US competition. In the first place it provided a channel for cooperation between firms that had until that time been noticeably absent; but it has also provided a mechanism

mechanism for creating convergent expectations. For the first time Europe's fragmented electronics industry confronted the threat of competition together and came to realise that, in a world of tougher competition, protection or national champion status had diminishing value. To compete successfully even within Europe they needed to set their sights on global markets and global competitiveness;

- iv. in awakening awareness to the importance of being a global player in the world market place, ESPRIT was seminal in creating a constituency of big business pressing for the completion of the internal market and the abolition of all internal barriers to trade. Once the major firms discarded their national champion role, it was logical that they should begin to look to Europe as their home base and to see the divergent European standards and regulations, for example in data transmission, as a major hindrance to effective operation in this wider market.

Collaborations and Mergers

ESPRIT also proved to be a springboard from which a series of further collaborations, formal and informal, emerged. On the one hand were programmes aimed specifically at improving capabilities in electronics. Side by side with ESPRIT came the mega-project, a joint research programme between Phillips of the Netherlands and Siemens in West Germany designed to give both companies the capability to design and manufacture first the one megabit and subsequently the four megabit memory chip. Symbolically this was a very important move for it signified that Western European firms were no longer turning their backs on the 'commodity' (i.e. high volume, low value) chip market increasingly dominated by the Japanese. Indeed the rationale given for the mega-project was that both companies needed to follow the route of their Japanese competitors and capitalise on the benefits of vertical integration. Phillips needed hands-on experience in working with such chips if it were to use and incorporate them in its consumer electronics products. Siemens likewise needed experience with the state of the art technology for its computer and telecoms businesses.

Although a private collaboration between the two companies, the Dutch and German governments both contributed generously to the cost of the project, rumoured to be in the order of \$10 billion; and, with the help of Toshiba, to whom Siemens had to turn for the 4 megabit technology, the objectives have been achieved. Meanwhile, the other two major European chip manufacturers, Thomson(France) and SGS-Ates(Italy), pooled their interests into a single joint venture in 1987, and subsequently joined the other two companies in the successor programme, JESSI (Joint European structures on Silicon Initiative), which aims to overtake the Japanese in the design and production of the 16 megabit chip.

What has happened in semiconductors, the concentration of production around three main firms, is mirrored elsewhere in electronics. In consumer electronics Phillips acquired Grundig in 1983, but Thomson successively took over Telefunken, Ferguson, the last TV production plant in the UK owned by a UK firm (Thorn EMI), and then the consumer electronics interests of RCA in the US, making Thomson the second largest producer of colour TVs in the world. Nokia, of Finland, is a new entrant into European consumer electronics, building dramatically on a Scandinavian base by acquiring the consumer electronic interests of ITT in Germany when that company

sold off its European interests. In telecommunications, Siemens has consolidated its position in the US by the acquisition of Rolm, taken over the second largest US telecom equipment firm's overseas interests, and, through its linked bid with GEC for Plessey, has acquired a sizeable stake in the UK market. The most dramatic moves have, however, come from Alcatel, the telecom subsidiary of the French electrical and electronics giant CGE, which in 1987 took over the ITT interests in Europe, parachuting what had been, in 1975, a comparatively small telecom equipment firm, into second place in the world after AT&T. Thus were the national champions of yesteryear transformed into major European-based multinationals.

Mention ought also to be made of one further programme which was also, in a backhanded way, inspired by ESPRIT, namely EUREKA. EUREKA was originally proposed by Mitterrand in April 1985 as Europe's answer to Reagan's Star Wars programme. European leaders were worried that the US programme would pre-empt some of Europe's best trained minds and EUREKA was to be an alternative focus. But it was launched at a time when there was also some apprehension about the relative success of ESPRIT and ideas in Brussels for developing these initiatives to create a European Technological Community. It was also promoted, particularly by the British, as an alternative focus of European activity.

As it worked out, the EUREKA programme has proved far less flamboyant than either Mitterrand or Thatcher envisaged. Like ESPRIT and the other EC programmes it encourages collaboration between European firms but it goes beyond the Community and embraces also the EFTA countries; 'badging' of a project meaning no more than that it represents a *bona fide* collaboration across national boundaries. It is then up to national governments to provide project support according to their own criteria. Nor has it directly challenged the Community programmes. On the contrary, it has really become a complement to EC programmes, concentrating as it does on 'competitive' rather than the pre-competitive R&D required of the EC programmes. By 1989 the total number of projects accepted under its badge amounted to over 300, with total project costs amounting to 6500 M ECUs, a sum greater than the total financing for R&D committed under the EC's five year Framework Budget running from 1987-1991.[4] Its two most prominent projects have been high definition television, HDTV, bringing together Phillips and Thomson in the development of a new European standard for what is seen as the next big development in consumer electronics, and the Prometheus automobile project, aimed at developing the use of electronics in automobiles.

All this illustrates the degree to which ESPRIT proved a catalyst to a far more extensive movement of collaboration and merger in Europe in the period since 1984. Admittedly, ESPRIT was not the only straw in the wind. Even before 1984 there had been a rash of privately inspired collaborations and joint ventures, particularly in electronics, as firms sought to cope with fast moving and increasingly expensive technological change, combined with the advent of Japan as a major competitor in high tech markets. 'Strategic alliances' had already become the fashionable jargon of the Business School. ESPRIT gave this movement the imprimature of official blessing, and, most importantly, kicked the focus away from national markets and national policies towards the European and global markets. This change of mood was in turn picked up and reinforced by the Single European Act with its commitment to the completion of the internal market. And the prospect of the single market by the end of 1992 gave further encouragement to these trends. At the beginning of the decade, firms had typically sought to protect themselves from the exigencies of competition by

seeking help from national governments: by the end of the decade mega-mergers across national boundaries were the name of the game. CGE-ITT, Asea-Brown Boveri, Nestle -Rowntree were but the tip of a much bigger iceberg.

The Dialectic of 1992

The Single European Act could be seen to pose something of a paradox for industrial policy. On the one hand, for the first time, it legitimised the Community's policies aimed at promoting research development and technology.[5] On the other, its central theme, the creation of the single market, has at its core the promotion of competition.

The Treaty of Rome makes no mention of industrial policy, or for that matter technology. Articles 85 and 86 which relate to the restraint of monopolies and restrictive practices are the only articles which touch on the conduct of industrial affairs, and essentially they embody what might be called the 'minimalist' approach - the role of the state as a regulator from the sidelines rather than an active initiator of policy.

The Single European Act adds to Part III of the Rome Treaty a Title (Title VI, Article 130F) which reads:

The Community's aim shall be to strengthen the scientific and technological base of European industry and to encourage it to become more competitive at an international level. In order to achieve this it shall encourage undertakings, including small and medium sized undertakings, research centres and universities in their research and technological development activities; it shall support their efforts to co-operation with one another, aiming, in particular, at enabling undertakings to exploit the Community's internal market to the full, in particular through the opening-up of national public contracts, the definition of common standards and the removal of legal and fiscal barriers to that co-operation.

The Single Act also lays down a two pronged implementation mechanism for this provision. First, unanimous adoption by member states of a multi-annual framework programme, laying out the main scientific and technological objectives and defining priorities. Secondly, implementation of that programme through a series of sub-programmes which can be adopted by the Council, after consultation with parliament and the Economic and Social Committee, by qualified majority voting. In fact, with programmes like ESPRIT up and running, the Single Act was making *de jure* what was already *de facto*. But as we have seen, these programmes went considerably further.

In re-establishing European confidence in their technological capabilities by a process of (continued?) collaboration, they acted as a catalyst to a much stronger private sector dominated movement of concentration.

How can this be reconciled with what is supposed to be the main purpose of the Single European Act - namely the establishment of the single market? This is supposed to be all about competition. Consider the following extracts from the Cecchini Report, taken from the section headed 'The Competitive Vista of 1992':

A dramatically new environment awaits consumers and producers alike in the integrated Community market post-1992. The removal of a whole range of non-tariff barriers - frontier red tape, closed public procurement, a plethora of differing product standards - leads to an immediate downward impact on costs. But this is merely the primary effect Much more substantial gains will be generated by a new and pervasive competitive climate. One in which the players of the European economy - manufacturing and service companies, and consumers of their output - can exploit new opportunities and better use of available resources For firms the era of the national soft option will be over.

[6]

Admittedly, Cecchini is looking to dynamic as well as static gains from increased competition, above all the removal of the inefficiencies that stem too readily from the quiet life of protected monopoly profits. But is this really what is happening? Or is the process being dominated by the other 'track' of the Single European Act: that which seeks to promote competitiveness by the more traditionally mercantilist route of promoting R&D in strategic sectors. Indeed, is mercantilism dominating the process and creating instead a Fortress Europe?

The existence of the 'twin tracks' of 1992 is apparent in many sectors, with simultaneous pressures towards liberalisation and deregulation on the one hand, and towards collaboration and concentration on the other. Amongst advanced technologies, it is best illustrated by developments in telecommunications. The emergence of the RACE programme with its commitment to the integrated broadband network has already been mentioned, a development very much in line with the traditional, ordered public utility approach to network provision which seeks to exploit the maximum social benefit (externalities) to be gained from extensive network provision. Simultaneously, and anticipating the liberalisation moves of 1992, there has also been an extensive restructuring and the emergence of three leading equipment firms within Western Europe, Alcatel (CGE), Siemens and the Swedish firm Ericsson, all of which are collaborating extensively with the RACE and ESPRIT frameworks.

Yet, alongside this strengthening of the supply side, the EC Commission has issued a series of directives, using for the first time powers under Article 90 of the Treaty of Rome (which empowers the Commission in certain circumstances to take action to prevent undue preferential treatment of public enterprises or similar establishments), which seek to force the pace of liberalisation. In the summer of 1988 it issued its first directive setting a timetable for the liberalisation of (telecommunications) terminal equipment. In October 1988 came another directive aimed at opening the public procurement of network equipment to competitive tender. In December 1988 came a directive calling for the liberalisation of network use for all except voice services by April 1990. Further measures, dealing with access to the publicly owned voice networks, are addressed by the Commission in its 'Open Network Provision' directive, a draft of which was issued in April 1989. This lays down rules for tariffs, standards and the use of private networks issues in the heartland of any telecom authority. The strong stance being taken by the Commission is an indication of the importance they attach to these issues, the 'competitive' track of the Single Act, and the degree to which they wish to force the pace on liberalisation and deregulation. Equally, it has infuriated some member states, notably the French, who are taking the Commission to the European Court over their use of Article 90.

The 'twin tracks' of the Single Act in many respects echo the tension that has been implicit within the Community since its foundation, between the minimalists who saw competition policy as the only necessary tool of industrial policy and the maximalists who from the start argued for more positive supply side powers. With the Single European Act the maximalists' stance has been legitimised, but the tension has not been reduced. On the contrary, in many senses it has surfaced with greater intensity, witness the developments in telecommunications. Yet it can be argued that the tension is creative rather than destructive, that the twin tracks of the Single Act represent a dialectic whose resolution explains all.

The resolution of the dialectic is as follows. Fortress Europe is the wrong interpretation of 1992. The logic is that to be competitive, Europe had to transform its national champions into firms which could compete against all-comers on world markets. This inevitably meant firms of a size and influence beyond the control of the nation state, even beyond the control of the European authorities. To protect such firms, to turn them from national into European champions, risked defeating the whole purpose of the exercise, which was to raise and maintain their competitiveness. 'Control' therefore has to come from the market, from these firms having to compete with their Japanese and US competitors in home markets as well as in foreign markets. Liberalisation and deregulation therefore become an essential complement to collaboration and concentration - the twin tracks to competitiveness.

The Dangers of Technological Mercantilism

The balancing act between the pressures of competition and the pressures for protection is not an easy one. It would be all too easy for the balance to tip too far in one direction and for the whole construction to collapse into protectionism, into creating Fortress Europe.

One has to ask, why all this pressure to promote European competence? Why does it matter whether Europe makes or imports its semiconductors? For a country like Canada which has been trying for so long to maintain its economic and industrial independence from the US, the answer is obvious: fear of dependency. The whole concept of a strategic industry derives from its military origin, for the strategic industries were those which supplied the defence industries. Without them, there was no defence. Today the concept of the strategic industry has shifted from the defence related industries to those which are seen to be central to competitiveness. Implicitly this reflects the shift from territorial to economic rivalry, and in particular the 'war' in technological competitiveness being waged between the US and Japan. Europe quite legitimately fears that, as a third party to this war, it will find itself disadvantaged for no good reason. To be wholly dependent upon the US or Japan as a source of imports of some major component say micro-chips, or CAD/CAM system potentially puts Europe at a competitive disadvantage compared with its two main competitors.

Herein lies the explanation for the latter day resurgence of mercantilism in the guise of technology. Micro-chips, telecommunications, computers, genetic engineering ... all now trade under the name of 'strategic' industries, and all major trading partners argued for indigenous capabilities, without which competitiveness would be sorely damaged. In turn, this justified a range of promotional aids and subsidies.

In the EC, programmes such as the ESPRIT programme are essentially mercantilist in spirit; but so are the Japanese VSLI and next generation basic industries

programmes, and so for that matter are the US Semitech and MCA programmes, not to mention the military programmes such as DARPA. In the EC we have argued that the mercantilism implicit in ESPRIT and similar programmes is now being deliberately tempered by the single market programme which is forcing competition upon European manufacturers alongside support for technological advance. But it only requires a new initiative from the Japanese, or the US, to tilt the balance in the other direction, away from open trade and open access towards cut-throat competition in technology and technological prowess. The current situation is not stable. There is too much innate mercantilism for confidence that free trade and open access will prevail. But if the balance tips towards mercantilism, then Fortress Europe may be upon us in 1992.

There is one area in particular where the forces of mercantilism are very worrying. For the whole post-war period, the world has come to rely upon open access to US scientific knowledge. Increasing technological competition between Japan and the US is, however, beginning to change perspectives. Many Americans resent the degree to which, in their eyes, they have pioneered new technologies, only to see them picked up and exploited by Japanese firms, and re-exported to the US in the form of advanced consumer electronics or similar goods. This has led to an increasingly mercantilist attitude amongst the purveyors of knowledge. The industry-organised electronics groupings, Semitech and MCA, expels non-US firms from their ranks; the National Science Foundation organises a conference on super-conductivity but excludes foreign participants or foreign observers; [7] databases organised by public institutions such as the National Institutes of Health are no longer available to all comers.[8] Increasingly an American passport is being demanded.

For Canadians it may seem that we Europeans are being forced to swallow some of our own medicine. There are, however, important differences between the products of technology, and science and technology itself. We have long lived with one form or another of barriers to trade in goods. Knowledge is different. To protect scientific knowledge puts the game into a different ball-park, and potentially a much more dangerous one. The world would be a much poorer place without the free exchange of knowledge across international boundaries.

This scenario suddenly makes it much more important that the balancing act, the dialectic, of 1992 works. If it does not work, then Europe will move sharply towards protectionism. But there is little we Europeans can do to ensure that the balancing act succeeds. The onus is on the US and Japan. For the one, it is imperative that the pressures for protection are resisted and, above all, that it maintains its tradition of open access to intellectual knowledge. For the other, it is imperative that ways are found of opening markets to more foreign competition. For Canadians and other members of international fora such as the GATT, it is essential to keep the pressure on both countries, and on the EC, to maintain the openness and transparency of their trading arrangements. In this way you can help to ensure that 1992 works as it is supposed to, to everyone's benefit.

Table 1:**INDUSTRIAL R&D AS A PROPORTION OF INDUSTRIAL OUTPUT IN SOME OECD COUNTRIES: 1967-1985**

	Total	Industry Financed(a)				
	1967	1975	1985	1967	1975	1985
Japan	0.92	1.28	2.11	0.90	1.26	2.07
United States	2.35	1.84	2.32	1.15	1.18	1.54
France	1.36	1.36	1.78	0.75	0.87	1.24
F R Germany	1.31	1.65	2.42	1.07	1.30	1.99
Italy	0.43	0.61	0.92	0.41	0.55	0.71
Netherlands	1.45	1.45	1.50	1.31	1.30	1.22
Sweden	1.29	1.64	3.03	0.94	1.48	2.64
United Kingdom	2.01	1.72	2.01	1.34	1.08	1.32
Western Europe(b)	1.27	1.35	1.81	0.92	1.00	1.37

- (a) Industry-financed R&D excludes that funded by governments, which is very important in some defence fields. As a figure it is generally taken to give an indication of industry's commitment to R&D.
- (b) West Europe is defined as the six European countries listed above plus Belgium, Denmark and Ireland. Total R&D and industrial output for Europe have been calculated by first transforming each country's data into US dollars on the basis of purchasing power parities and then aggregating.

Source:

K Pavitt and P Patel, 'The International Distribution and Determinants of Technological Activity' *Oxford Review of Economic Policy*, Vol 4, No 4, December 1988. Their figures are based on OECD data.

Table 2:

TRENDS IN PER CAPITA PATENTING IN THE UNITED STATES BY MAJOR OECD COUNTRIES

Patents per million population		
	1963-8	1980-5
Japan	10.40	78.98
United States(a)	236.13	157.88
France	26.64	38.79
F R Germany	55.32	97.01
Italy	8.15	14.03
Netherlands	36.61	46.89
Sweden	65.30	89.12
Switzerland	140.74	182.34
United Kingdom	44.38	40.51
Western Europe(b)	36.71	51.15

- (a) The differences in magnitude of per capita patenting between the US and the other countries are an exaggeration of the differences in innovative activity as the propensity of US firms to patent in their home country is higher than that of firms from other countries.
- (b) Western Europe is defined as the seven European countries listed above, plus Belgium, Denmark and Ireland.

Switzerland's high rate of patenting is explained by the concentration of the chemical and pharmaceutical industry in that country.

Source:

K Pavitt and P Patel, 'The International Distribution and Determinants of Technological Activity,' *Oxford Review of Economic Policy*, Vol 4, No 4, December 1988. Their figures are based on OECD data.

Table 3:

**SECTORAL PATTERNS OF RELATIVE ADVANTAGE IN TOTAL US PATENTING
FOR SOME OECD COUNTRIES:**

REVEALED TECHNOLOGY ADVANTAGE INDEX (a)

	Chemicals		Mecha-	Motor	Raw	Def-	Elec	Electronics	
	Fine	Other	nical	Veh	Mater	Mach	Mach	Cons	Capital
Japan									
1963-8	3.01	1.38	0.77	0.65	0.51	0.35	1.10	1.37	1.80
1981-6	0.87	0.96	0.81	2.08	0.40	0.11	1.11	1.71	1.86
US									
1963-8	0.89	0.94	1.01	0.95	1.08	0.99	1.01	0.99	1.01
1981-6	0.86	0.98	1.01	0.68	1.21	1.16	1.00	0.92	0.94
France									
1963-8	1.95	0.96	1.02	1.89	0.54	1.10	1.12	1.04	0.80
1981-6	1.45	0.94	0.99	0.80	0.84	1.66	1.08	1.10	0.86
F R Germany									
1963-8	1.11	1.41	0.96	1.37	0.61	1.03	0.82	1.25	0.88
1981-6	1.17	1.24	1.12	1.48	0.67	1.14	0.90	0.60	0.54
1963-8									
1963-8	1.21	1.66	0.95	1.01	0.76	0.78	0.68	0.64	0.36
1981-6	2.23	1.02	1.16	1.15	1.07	0.95	0.69	0.64	0.40
1981-6									
1981-6	2.23	1.02	1.16	1.15	1.07	0.95	0.69	0.64	0.40
Netherlands									
1963-8	1.72	1.40	0.70	0.17	1.00	0.15	1.16	1.36	2.22
1981-6	0.63	1.05	0.75	0.36	1.69	0.30	1.10	1.44	1.59
1963-8									
1963-8	0.92	0.69	1.20	1.05	1.03	2.35	0.97	0.90	0.57
1981-6	0.59	0.61	1.47	0.75	1.38	2.07	0.95	0.55	0.24
1981-6									
1981-6	0.59	0.61	1.47	0.75	1.38	2.07	0.95	0.55	0.24
1963-8									
1963-8	2.18	1.72	0.89	0.45	0.51	1.44	0.90	0.43	0.48
1981-6	2.02	1.30	1.00	0.44	0.73	1.01	0.98	0.55	0.32
1981-6									
1981-6	2.02	1.30	1.00	0.44	0.73	1.01	0.98	0.55	0.32
1963-8									
1963-8	0.88	1.00	1.06	1.55	0.65	1.28	1.04	1.06	1.09
1981-6	2.00	1.00	1.01	0.97	0.86	1.02	0.97	0.89	0.68
1981-6									
1981-6	2.00	1.00	1.01	0.97	0.86	1.02	0.97	0.89	0.68
1963-8									
1963-8	1.30	1.24	0.99	1.29	0.66	1.15	0.94	1.05	0.91
1981-6	1.44	1.11	1.08	1.07	0.86	1.18	0.94	0.76	0.62

- (a) Revealed Technology Advantage index is defined as a particular country's share of US patents within a sector divided by that country's share of total US patents. Thus a value of greater than one shows relative strength of a country in a sector and vice versa.

The definition of the sectors is based on an aggregation of 3-digit US patent clauses, the precise correspondence being available from the authors.

Source:

K Pavitt and P Patel, 'The International Distribution and Determinants of Technological Activity,' Oxford Review of Economic Policy, Vol 4, No 4, December 1988. Their figures are based on OECD data.

Notes

1. Schumpeter's theories were expounded in his mammoth work on business cycles: J A Schumpeter, A Theoretical, Historical and Statistical Analysis of the Capitalist Process (New York, McGraw Hill, 1939). See also his Capitalism, Socialism and Democracy (New York, Harper and Row, 1943).
2. Professor Freeman expounds this view in a splendidly eloquent essay 'The Third Rondratieff: The Age of Steel, Electrification and Imperialism'. Paper prepared for the International Colloquium on 'Long waves and the Economic Conjuncture - the Present State of International Discussion'. Vrije Universiteit Brussels. 12-14 January 1989, Maastricht/MERIT, Brighton/SPRU.
3. See M. Piore and C. Sabel, The Second Industrial Divide: Possibilities of Prosperity (New York, Basic Books, 1985), and C. Freeman, Technology Policy and Performance: Lessons from Japan (London Frances Pinter, 1987).
4. The EC's Framework Budget brings together all the EC's research and technology expenditures, including those on energy and science. The first framework budget was negotiated in 1986-87 and runs from 1987-91. Its total expenditures over the five year period were projected to be 5.6 M ECUs. It has subsequently been renegotiated and slightly increased.
5. As explained in the text, the Treaty of Rome in fact gave no powers to the commission to promote initiatives such as ESPRIT. Until the Single European Act was passed the Commission relied on powers under Article 235 of the Rome Treaty which provided general powers for community action where no specific powers had been granted. Article 235 required, however, the unanimous decision of the Council and consultation with the Assembly.
6. Taken from Paolo Cecchini: The European Challenge: 1992: The Benefits of the Single Market, (Wildwood House, for the Commission of the European Communities, 1988, pp.73-74).
7. See David Mowery and Nathan Rosenberg: 'New Developments in US Technology Policy. Implications for Competitiveness and International Trade Policy.' (Center for Economic Policy Research, Stanford University, 1989).
8. See John Hodgson, 'Access to Information: Europeans Feel US Squeeze', Biotechnology, Vol 8, January 1990, p15.



10 Canada and the International Economy

Ian A. Stewart

Introduction

These notes are being written while the world's financial markets have been involved, once again, in dramatic gyrations. While these gyrations have their proximate cause, perhaps, in the uneasy state of the US 'junk bond' market and certain 'technical' reactions to this unease, their fundamental cause seems to lie in the more general unrest and uncertainties which pervade world economic affairs. The junk bond market itself can be thought of as a sort of speculative reflection of a complex and interacting set of economic, technological and geopolitical developments. It is a bold observer who is quite certain whether it is best thought of as evidence of a form of speculative excess, of the sort that has marked the latter days of prolonged periods of economic advance in the past, the kind of excess which Schumpeter's creative gales of destruction were meant to remedy. Or is it rather a reflection of the 1920s, when a world struggled in vain with deep structural disorders, and, failing to resolve them, collapsed from a speculative orgy into deep depression? Or could it be, as the more optimistic would view it, merely a reflection of one among a number of mechanisms by which the world accommodates itself to a new set of economic and technological realities arising from the dislocations of the seventies and early eighties?

It is not difficult to find this almost breathtaking range of speculative interpretation in the world's financial press and periodicals. Indeed a similar speculative range seems to mark any number of world economic developments at the moment. Is the steady march toward Europe 1992 the consecration of a dream of a united states of Europe, the miracle cure for Euroclerosis and the birth of a new expansive age, or merely the construction of a fortress to repulse Far Eastern and, less evidently, US economic imperialism? Is that economic imperialism, the central force in the 'globalizing' imperative of our age, the relatively benign mechanism by which the world is swept through competitive response to new

plateaus of technological and economic accomplishment, or is it mercantilism raw and unadulterated supported by a population never to succumb to western consumptionism? Do the twin US deficits reflect a precipitately declining economic power, or do they simply for the moment disguise an economy in the throes of a successful adjustment to new economic forces? Do Britain's recent economic difficulties, the re-emergence of a potent inflation and external deficits, signal a short-term conjunctural difficulty, or are the apparent benefits of 'Thatcherism' revealed as a chimera? Is the Canada/US Trade Arrangement an effective and reasoned balancing of regional and market imperatives, within a continuing multilateral commitment or does it reflect the predominantly defensive posture of a country uncertain of American political resolve and its own technological capacities? Is the world being carved into defensive trading blocks or do scale and market imperatives provide sufficient reason for continentalization? Are the forces of globalization and harmonization fundamentally to be feared, threatening the continuous relocation of world economic activity to regions with the lowest common denominator of wage-rate, amenity and social structure, or are they rather an integrating goad to further world growth and development? Similarly, does the growing influence of the multi-national enterprise, perhaps the primary transmission mechanism both of world economic integration and of decisions with respect to the location of economic activity, promise a sensitive response to these issues or one fundamentally in conflict with national and international political authority?

One could almost make a game of listing the number of world forces and developments that are susceptible to almost antithetical interpretation and speculation. The short list above omits the one issue that increasingly seems to dominate almost every international forum. Will the ecological imperative compel the emergence of an international capacity both to manage growth in a more environmentally benign way and to share the benefits of that growth more equitably, or will the capacity to distribute licence to the 'bads', as the Brundtland Commission would wish it, prove even more impossible to contrive than have attempts to reallocate title to the 'goods'? Whether one is an optimist or a pessimist, and again invoking the logic of the Brundtland Commission, there is perhaps no issue that seems to ascend so rapidly in urgency and for which the structures of international response seem, as yet, so ill-defined.

I have been driven to this introductory stream of consciousness not only by the vagaries of financial markets but by a hunch that conversation on some of these larger issues, and our mutual view of them, may be more productive in a Canada-UK colloquium in the late 20th century than a detailed examination of our bilateral economic interests.

The fact of the matter is that we have become steadily more marginal to each other in trade terms, though, as we shall see later, we remain not unimportant direct investors in each others territory. Whatever global and multilateral aims and concerns we may share, the narrower preoccupation of our two countries must be, for the time-being, with accommodation and integration with our continental partners. Further I am not an international trade specialist and could not offer you an industry by industry, commodity by commodity, financial flow by financial flow analysis of where our fortunes interlock even if you wished it. Indeed I rather suspect that I was asked to try my hand at the international economic paper precisely because I was unlikely to trouble you with such detail. Instead I would hope to survey a little the background to, and the status of, current Canadian

international economic preoccupations, reflect a little on some common and some not so common elements in our stances to the world, and then return to speculate again on likely developments.

Some Background

It is not necessary to rehearse at great length, particularly for this audience, the structural economic shocks which conspired together to end the post-war Keynesian era, the era of welfare state building in the industrial world. Nor is it necessary to examine in detail their legacy in recession, stagflation, and recession again, followed by a remarkably steady and prolonged ascent from that recession, an ascent that has nonetheless failed to repair some very major structural disorders internationally. It may be useful, however, to say a little about these matters from a Canadian perspective in order to make more intelligible the developments in Canada's international stance that have flowed from them.

I have elsewhere summarized these events as follows:

While the prescriptive consequences of the strains which contributed to the erosion of the Keynesian consensus remain very much in dispute, there is little disagreement on the list or on the inseparable interactions of the forces which compose it. Inflation, growing structural disorders and imbalances, the competitive emergence of Japan and the newly industrializing countries eroding industrial country dominance, international price shocks particularly in food and oil, fundamental technological change and a loss of discipline in domestic and international economic management, all have a place in any comprehensive assessment. Any of these forces alone, but particularly domestic and international inflation, would have severely tested the Keynesian compromise. Together their effect was to sponsor a broad-based challenge and reassessment. Monetarist, neo-Keynesian and neo-classical revolutions within the economics profession not only eroded Keynesian dominance but diminished consensual advice to policy makers.

Perhaps as important as the questioning of macroeconomic prescription was the reemergence of a neo-classical emphasis on efficiency, partly in recognition of the Keynesian neglect of issues of supply, partly reflecting the apparent productivity collapse of the early '70s, and partly reflecting the new science and technology-driven competitive environment. With this went a deep questioning of the inefficiencies of the programs of the welfare state and of interventionist government more generally.

The continuing aftershocks of these disruptions intersected with world-wide recession brought on by the imposition of dramatic monetary restraint in response to the second oil-shock and its inflationary aftermath. Despite almost five years of renewed growth, the world continues to confront: large international trade and payments imbalances; fear of the reemergence of inflation and consequently historically high real interest rates; the overhang of third world debt with its threat both to the international financial system and the prospects of economic recovery in much of the third world; uncom-

fortable unemployment levels particularly in Europe; and, apart from the newly industrializing in Asia, an apparent halt to the agonizingly slow convergence of real incomes between the underdeveloped and developed world. For many in the industrial world, deep governmental fiscal imbalances and continuously rising public debt levels, confront the demands of social transfer programs, the revelation of dramatic holes in safety nets particularly among women, the expanding claims of health and education, and infrastructure demands more generally. These together with the competitive force of 'globalization' with its roots in technology, the increasing mobility of real and financial capital, and international wage differences, seem almost to compel a commitment to a new era of economic and political liberalism with its language of individualism, privatization, deregulation, the efficacy of markets, the inefficiency and motivational costs of the welfare state, and the virtues, if not the necessity, of less government generally.

Despite popular misconceptions to the contrary, perhaps as a result of measuring itself against its southern neighbour, Canada did not lead in the creation of, nor ever achieve the status of, an advanced welfare-state. Measured by the proportion of economic activity passing through the hands of government, Canada remained throughout the Keynesian period in the bottom half of the OECD league tables. In three notable areas, however, Canada may be said to have had world-class status—the volume of public resources devoted to education broadly defined (partly reflecting the dimensions of the baby boom in Canada), the elaboration of regional transfer and economic incentive programs, and, at least partly reflecting regional sensitivity and seasonal economic activity, the evolution of an elaborate and costly system of unemployment insurance. The attention to matters of regional equity and development reflected both a genuine concern for the distribution of well-being and the growing political and economic power of the provinces in a decentralizing federation.

For a number of reasons, including increasing tensions within the federation, the turbulence of the '70s and '80s proved particularly difficult for Canada. Through abrasive labour-management relations, vulnerability to resource price rises, and expansive public policy, Canada suffered a more severe inflationary bias than many other industrial countries, particularly those with more elaborate consensual institutions and processes.

The incapacity of the federal government and the provinces to arrive at a principle of revenue-sharing through the two oil price shocks embittered federal-provincial relations. The collapse of oil prices and of resource prices generally through the early '80's recession deepened its impact on Canadian incomes and employment. It also became clear through the period, with increasing competition from new supplies and suppliers, that Canada's position as a rentier nation, a leading resource supplier to the world, was no longer so secure. The traditional shortfall in Canadian manufacturing productivity, particularly vis-à-vis the US, the relative decline of traditional industries and the growth in importance of science and technology-based manufacturing, and the recognition of Canada's lag both in research and

development spending and in the diffusion of new technologies, sponsored fears of deindustrialization.

And finally, as in most other industrial countries but again with somewhat more dramatic effect in Canada, Keynesian ministrations to the stagflationary period combined with the high elasticity of statutory support programs through the recession to bequeath a deeply entrenched federal deficit. Five years of continuous, if not robust, recovery and some increase in average tax burdens have failed to make substantial inroads on its scale as debt/GNP ratios continue to rise. Efforts to contain the rate of rise of expenditures meet formidable political obstacles from interest-group communities while efforts at tax reform meet a similar reluctance to see tax expenditures foregone.

The acknowledgment of increased international economic and political interdependence signals both a reduced capacity to manage economic events and yet the need to adopt wise national policies to shape a strategic response to international competitive forces. Canada's position as a small, open economy in a North American setting and the tension between continentalist and multilateral strategies sustains a deeply discordant political and economic debate. The politicization and fragmentation of society, itself, in part, a product of big government and welfare state policies, confounds efforts to reform economic, social and industrial policies. The regional nature of the Canadian economy, federal-provincial tensions within the Federation, and the changing fortunes of regions under world-wide economic and technological forces, prevent a systematic resolution to the centralist-decentralist debate and the thinking through of national strategies. Canada's history and its good fortune as a resource based exporter to the world with a derivative and branch-plant oriented manufacturing sector confronts a new reality in which the importance of resources may diminish and the vibrancy of the manufacturing sector is questioned. The inability to reach conclusions on which way fortune lies sustains a cyclical fashion in industrial policy making-from publicly supported mega-projects to market reinforcing policies and back again. And with these economic dilemmas and tensions run an equally lengthy list surrounding political forces and institutions.

Though its interpretation of events and their influence differs in emphasis, the Royal Commission on the Economic Union and Development Prospects for Canada (the Macdonald Commission) embraced a similar analysis of world and Canadian developments. In reaching its central recommendation in consequence, that Canada should pursue a free trade arrangement with the United States, it adduced a number of further factors. It cited the increasing concentration of Canadian trade with the US (and a growing share with Japan) and the declining share represented by Europe and, in particular, the United Kingdom. Merchandise exports to the UK have declined from seventeen per cent of Canadian exports in 1954 to about 2.5% in 1988. Similarly imports from the UK have declined from 9.6% to about 3.5% of Canadian imports over the same period. It quoted with approval an analysis which described the apparent failure of the 'Third Option' (an

attempt to diversify Canadian trade, particularly with Europe in order to reduce American dependence) and which urged closer integration with the US.

The Commission laid particular emphasis on the changing composition of Canadian trade. Manufactured exports had become steadily more important while unfabricated raw materials had declined in relative importance over the post-war years. These facts were joined to evidence of decline in Canada's share of world trade in manufactured goods, to the growing importance of trade in high-technology goods and services, to Canada's lagging research and development performance, and to economic and econometric evidence of gains in productivity under North American integration, to further buttress its recommendation.

Finally, though affirming continued Canadian commitment to a multilateral world and the GATT system, the Commission expressed agnosticism about the prospects of further and rapid progress in confronting the growing world recourse to non-tariff barriers to trade. Indeed the Commissioners feared that under the pressures of structural imbalances and competitive pressures, the world might retreat further from its commitments to the GATT. Not least, the Commission worried that the US might be a principal offender, particularly in its use of safeguard, countervail and anti-dumping provisions of US trade law to harass vital Canadian exports.

The Commission's arguments are cited here but it was far from alone in urging consideration of closer US integration, or in the structure of its arguments for doing so. To make too long a story a little shorter, the arguments were seized by the government, an agreement negotiated, and an election fought around the issue of its ratification.

The campaign revealed deep divisions among Canadians with, to over-simplify, social, cultural and a deep strain of economic nationalist argument arrayed against a substantial majority of the economics profession and a virtually unanimous business community. The debate further revealed a deep strain of what might be called techno-pessimism, an anxiety about Canada's capacity to adjust from raw and semi-manufactured goods to higher value-added, knowledge based exports. Many feared that adjustment would proceed largely in favour of the US as the rationale for Canadian branch plants and subsidiaries withered. In the event a plurality of Canadians may be said to have opposed the agreement though the government was returned and the deal immediately consummated.

The Current Outlook

So much for background! What can be said in the fall of 1989 for Canada's international estate and prospects? What follows attempts to gather under a number of headings the salient issues, questions and uncertainties.

The Macroeconomic Situation

Claude Forget will have canvassed this topic far more comprehensively than is necessary here. It will be helpful to subsequent discussion, however, to gather a few of the elements that have particular relevance to Canada's international economic posture and fortunes. With the rest of the world, the Canadian economy is now

into its seventh year of sustained growth. Also with the rest of the world, speculation about whether this good fortune must terminate in a 'hard' or 'soft' landing has now been active since the persistent quality of inflation, deficits, surpluses and debt problems became evident. To a very substantial degree Canada, as a small open economy, is a 'taker' of economic events originating abroad. But it has a persistent fiscal deficit problem of its own and an underlying inflationary bias that is less evident in more consensual economic regimes. In consequence Canadian monetary authorities have assumed the full burden of seeking to control aggregate demand levels by an interest rate regime that has carried Canadian rates to historically high levels compared to their US counterparts.

Three interactive international consequences, not necessarily wholly the result of these policies, would seem to be evident. The Canadian exchange rate vis-à-vis the US dollar has steadily appreciated as inflows of debt capital have dominated a steadily deteriorating current account balance. The current account deterioration reflects both a narrowing of a surplus on merchandise account and a steady deterioration on service account, the counterpart of a rapidly expanding international debt. Canada's net international debtor position, the largest in the world until passed by the US in 1986, has nonetheless increased sharply in absolute terms to some \$230 billion in 1988, reflecting in turn a sharp relative decline in direct investment and an equally rapid rise in portfolio flows. This infusion of foreign, largely Japanese, saving would appear to be financing over one-third of the current federal government deficit.

One other set of facts is relevant when puzzling about Canada's trade prospects. Since the events of the early seventies, the Canadian economy has been a rather prodigious generator of jobs, and has grown at a real growth rate not very different from the OECD average. The productivity performance has, however, been markedly worse at the low end of the OECD scale. Aside from the abrasiveness of labour/management relationships, this helps to explain a Canadian inflationary bias. It may also contribute to an explanation of Canada's deteriorating trade performance and confirm deep suspicions about the quality and quantity of Canadian research and development performance. It may also confirm increasing Canadian concerns about the quality of education despite one of the highest ratios of educational expenditures among industrial countries. In a related way, Canada's deteriorating current account reflects in part the very high import content of major investment booms in Canada, as machine tools and equipment are largely sourced abroad.

Monitoring the Effects of the Free Trade Agreement

It is not surprising, given the above, together with the swarm of conjunctural, technological and other factors affecting world trade that it is difficult to discern or isolate consequences directly attributable to the Trade Agreement. Allegations of benefit and cost can be found in the daily press, but perhaps the more remarkable development, given the temper of the campaign debate, is the degree to which discussion of the Agreement has vacated the front pages. It is, of course, early days yet. And the principle effective force of the Agreement, so far, has been the beginning of an extended process of tariff reductions.

As is well known, the negotiations leading up to the Agreement failed to define acceptable subsidy practices and to constrain the harassing use of trade law—an objective that had been central to the original impetus to negotiation. Rather, mechanisms were formalized to seek to resolve disputes and to oversee the application of each country's trade law, particularly safeguard, countervail and anti-dumping practices. It was agreed to pursue further negotiations over a five to seven year period in a search for common subsidy and incentive definitions and in pursuit of a more transparent application of defensive practices and law. It may be that as these negotiations proceed the sensitive issue of 'harmonization', particularly of social and regional expenditures and of taxation structures and levels may propel the arrangement back to the centre of national attention. If these negotiations fail to make progress, on the other hand, their sensitivity may increase for quite converse reasons.

In part driven by major tax reforms in the US, Canada has been engaged in its own extended struggle with tax reform. While competitive pressures and structural disorder within the tax system alone, absent a free trade agreement, would probably have brought reform to the top of the policy agenda, many would allege that the nature of Canadian reform, particularly the flattening of progressivity within the system, reflects an early manifestation of 'harmonizing' pressure. In a similar way, but much more far-fetched, some see Canadian exchange rate policy as a concession to sensitive observers, in the US, of Canada's persistent bilateral trade surplus with the US. While Canada, despite the Free Trade Agreement, continues to share with the rest of the world anxiety about the US use of Section 301 of its trade law and its more recent Super 301 pursuit of 'fair' trade, no reasonable observable would lend much credibility to the exchange rate allegation.

Industrial Policy

The notion of industrial policy is a perennial topic of debate in Canada which refuses to bow to the current reverence for markets, deregulation and privatization and which probably deserves its own sub-head. In part this reflects a continuing Canadian suspicion that the failure to move on from raw material production to higher value-added pursuits reflects a manipulation of the Canadian economy by wiser MNEs and their governments. In part, as well, it reflects both a recognition that national fortunes will increasingly be tied to knowledge-based goods and activities and that Canada's record in research and development, and in the dissemination of invention and innovation, seriously lags its principal competitors—a phenomenon that will continue to require government intercession to remedy. Finally it reflects a growing concern that the world-wide process of agglomeration, take-over and consolidation, whether or not a reflection of forces set loose by the Free Trade Agreement threatens such niches of high technology as Canada does enjoy. This has two aspects. One is the take over of indigenous operations such as the Connaught laboratories by externally based multinationals, the other is the adventuring and transference abroad of high tech activity by Canada's MNEs such as Northern Telecom and Bombardier. The Reagan/Thatcher revolution, as it is known, has proceeded much less far in Canada, in both its esteem for markets and its strictures on redistributive policies. But it would be a mistake as well to assume

that this vague lust for an industrial policy has any comprehensive counterpart in a fleshed-out structure of strategic market interventions.

Gatt and the Uruguay Round

Despite the fears of some that the pursuit of continental free trade would lessen Canada's ardour for the GATT and the world multilateral system, there is little evidence to suggest that this is so. And despite the deep pessimism that has from time to time afflicted the Uruguay round, there would now appear to be, perhaps agriculture aside, a reasonable optimism that the Round will be completed with significant progress on dispute settlement and surveillance of national policies, reformation of textile arrangements, reform of safeguard practices and a start on a regime for services and intellectual property. Despite the intense pressures on the world trading system represented by the upheavals and structural disequilibria of the last two decades, there would now appear to be a reasonable expectation that an early collapse into warring trading blocks seems unlikely.

The Asia-Pacific Region

Canadian trade with Japan has increased steadily over the post-war period. From little more than 2.5% of Canadian exports in 1954, Japan took approximately six per cent in 1988. It is difficult to believe that as the centre of gravity of world trade and economic activity moves increasingly to the Far East Canada's Pacific face will not draw it increasingly into the orbit of Pacific trade. As well, as noted earlier, Canada along with the rest of the world, not least the UK, has been a major beneficiary of the counterpart of Japan's massive trade surplus, the flow of capital abroad. Of the total stock of Canadian bonds held outside Canada Japan's share has risen sharply over the last decade from less than two per cent in 1978 to over twenty-five per cent in 1988, and this increase has occurred while the stock itself has tripled from \$50 billion over the same period.

In recognition of the rapidly growing importance of Japan and the lesser dragons to Canada, the Canadian government has recently announced 'Pacific 2000', a program which recognizes Pacific trade as one of the 'three pillars' of Canadian trade policy, joining the US and the EC. The program envisions increased promotion of exports, the pursuit of collaborative science and technology pursuits with Japan, and the funding of the study of Asian languages in Canada.

It is interesting to note, perhaps, while examining Canadian indebtedness, that foreign direct investment in Canada has increased much less rapidly over the same period and declined sharply as a proportion of Canadian net indebtedness. A similar relative decline has occurred in foreign holdings of Canadian equities. At least so far as the Canadian economy is concerned the Japanese predilection appears to be to hold debt rather than a major holding of tangible assets. It is also useful to note that though trade with the UK and Europe has been in long term decline, UK and EEC direct investment in Canada has maintained a constant share and debt holdings have increased from eighteen to twenty two per cent over the 1978-1988 period. While Canadian trade has become increasingly concentrated

with the US, the rising proportion of net Canadian indebtedness held outside the US reflects, of course, a rather substantial relative decline in US holdings.

Canada/UK Relations and Europe, 1992

It is probably fair to state that knowledge within the Canadian business community, and indeed perhaps within the Federal government, of the process that unfolds in Europe toward goods, services, people and capital integration by end 1992 is extremely limited. As Peter Dobell has noted, there is little evidence, except in isolated cases, of an aggressive Canadian pursuit of a market that will upon completion exceed the American in size. Nor does there appear to be adequate recognition that Europe, 1992 will, through internal rationalizations and consolidations, present a much more formidable competitive face in third markets. It is as if the failure of the 'Third Option' and the relative ineffectiveness of the Canadian 'contractual link' to the Community had combined with intense Canadian attention to the US market and the emerging importance of the Pacific region, to permanently turn Canadian business heads south and west. The relative decline in UK and western European trade has continued into the late 1980s.

Nor in the astonishingly rapid world pace of merging and joint venturing across a wide range of industry, both out of efficiency motives and out of a desire to locate behind the potential walls of continental custom's unions, do Canadian firms appear, as yet, to recognize even the defensive requirement to capture a piece of European action. As already noted, Canada and the Community already have in place the mechanism to begin to repair this neglect. The Framework Agreement, or 'contractual link', remains the only arrangement for industrial cooperation between the Community and a non-European country.

While it cannot be expected that the Community will begin to resolve its external posture until more of the pieces of the Single European Act are in place, it is not too early to speculate on the life that might be breathed into Canada's singular arrangement with the EC.

Apart from hearing general UK views on European developments, it might be particularly helpful to spend some time on the particular UK reaction to the policies of 'cohesion' or 'convergence' and the particular efforts to compose a 'Social Charter'. While the Canadian version of the welfare state is, at best, middle class by European standards there has perhaps been less instinct to retreat from it than in the UK. It is also the case that a very substantial flow of Canadian resources have been devoted to attempts to sponsor regional development and equity. While quite substantial accomplishments can be reported on the equity front, development in Canada's disadvantaged regions has been harder to come by. But it is perhaps the existence of these programs and transfers, richer by some substantial margin than those in the US, that have made Canadians particularly nervous about the prospect of excessive economic integration and its harmonizing pressures. If one understands correctly the UK reaction to Community aims on these fronts, the government has been on the other side of these issues, preferring less rather than more in the way of legislated commitments to regional, social and labour support policies.

International Economic and Environmental Collaboration

These notes must be drawn to a close. I will not revert to the broad list of speculations with which I began but one feels almost a sense of guilt these days if one fails to sponsor some exchange on, perhaps, the most oppressive and threatening of global spectres, not only ecological degradation but the inextricable link between this phenomenon and Third World development which the Brundtland Commission has drawn. These general concerns are of course buttressed by the apparent intractability of the Third World debt problem and its relationship to the virtually total constraint on growth in lesser developed countries that has followed from the dislocations of the recession of the early eighties.

What makes the address to these inextricably intertwined issues additionally mind-numbing to contemplate is the recognition that they virtually demand collective will in their treatment and resolution. But this collective will is required at precisely the time when most polities are in retreat from that very notion and at a time when this instinct to retreat seems to be justified by a technological revolution in the nature of economic activity which is shrinking both the importance and the capacity of nation states and their governments in the shaping of events. It is the classic global commons or public good problem at precisely the time when our faith in governments as the agent of collective address is at a very low ebb.

One has a sense in reading of Europe, 1992 that there is not only a new economic vitality in the air but a process that is reinvigorating the Community's political institutions, perhaps infusing the capacity to provide the world some leadership in these matters.



PART V
CONCLUSIONS



11 Implications for Canada-UK Relations in the 1990s

Donald Cameron Watt

This Anglo-Canadian conference has seen a considerable exchange of views between both sides. One is tempted to use the diplomatic formula 'a full and frank exchange of views'; except that a historian of diplomacy can remember occasions when that formula covered what was close to a bout of fisticuffs. This exchange has been marked by the large participation on both sides of persons concerned in, and with, the policies of governments, and their relations one with another rather than with the relations between the Canadian and British peoples. It is a regrettable fact that neither the Canadian nor the British delegations at the conference contained more than the merest handful of those whose reportage reacts directly upon opinion in the two countries. Observers have spoken of a 'continental drift' of Britain and Canada away from each other. The consensus among the delegations was that this was regrettable and to be opposed. The support given by both governments to this conference, and the whole series of 'Dalhousie' meetings of which this is the latest, shows the determination to halt, if not to reverse this flow.

The discussions at this meeting revealed that the language and concepts with which and in which Anglo-Canadian relations have been discussed these last fifty years are creating increasing problems in coming to grips with the real issues. It is not only that the interest each country has in the other appears increasingly marginal to the main thrust of interests in each country; but also that marginality is increasingly out of kilter with the absorption of interest in, and emotional commitment which the citizens of each country can demonstrate to, the well-being of the other. Focusing on policy and using these short-hand terms, 'Canada' and 'Britain', as though such concepts can

actually do something, take positive action or whatever, can also lead to a failure to explore the degree of correspondence in the range of opinion in our two countries, correspondence between Canadian opposition to Canadian policy and British opposition to British policy, or still less the match between government policy in one country and opposition policy in the other.

We share concepts of national sovereignty in the two countries which tend to govern official discussion which, although it covers an extremely important part of the relations between the two countries, does exclude the enormous growth in unofficial transnational contacts. These are the economic, financial, social, intellectual contacts of people to people which have remained seriously unexplained. If the Atlantic drift of Canada away from Britain, and *vice versa*, is to be overcome it is most probably in the exploration of these contacts that the future lies. Professor Meisel's paper spoke of the 'realignment of responsibilities in the public and private sectors' in each country and of the loss of sovereign control over 'the behaviour of certain economic enterprises'. Robert Boardman spoke of a 'slithering away of the State', a nicely unLeninist phrase, in the same context. Yet such contacts require encouragement and a will on both sides; they do not occur automatically. There is a good deal to be said for recognising work in this field as qualification for whatever kind of civic reward each of the two countries bestows upon those private citizens who work noticeably and significantly for the public good.

Both Canada and Britain are plural democratic societies with almost complete freedom of association permitted. Plural societies imply plurality among the bodies seeking or practising trans-Atlantic linkages. Some organisations, the Rotarians for example, or the English Speaking Union, still embody the internationalism of the pre-1939 and pre-1914 worlds which gave us the Olympic movement, Esperanto, and the international learned societies. Others have sought internationalism as a way of healing the destruction wrought by two world wars. Yet others have made international organisations a battlefield for the new ideological wars of the 1940s and 1980s: anti-Communism versus anti-capitalism, anti-colonialism versus a rather less concrete, more shadowy enemy with some anti-European overtones. Politically designed internationalism has acquired, therefore, a rather dubious odour in many quarters. But social links, such as the city-twinning movement, youth links, religious links, cultural links, which tie street to street, suburb to suburb, backwoods to backwoods, interest to interest, even hobby to hobby, these are the Lilliputian silken threads which can tie a Gulliver down and keep continents together.

Analysis of Canada and Britain as plural societies led the conference in two scarifying discussions introduced by Professor Meisel and Mr. Geoffrey Smith of the London *Times* to where the San Andreas-style faults lie in each country: the split between city and country; the development of an urban under-class or, to be more accurate, of urban under-classes; the alarmist pictures painted of Canadian centrifugalism. Centres are always falling apart, as William Butler Yeats reminded us a long time ago. There is a lot more ruination in a country than most people allow for, when they concentrate on the centrifugal rather than centripetal aspects of a society. It is much more a matter of what is pulling Canada and Britain apart from one another that is really significant, rather than the internal stresses in each country.

It is worth pointing out that in his account of Britain's internal stresses, the almost total command of Scottish politics by the Labour Party, the Mason-Dixon line (as it is irreverently called) from Merseyside to the Wash which divides the prosperous developing south and midlands from the decaying industrial strongholds of the Labour north of England, Mr. Smith said nothing about Northern Ireland. British political elites, and much of the electorate with them, have somehow managed to compartmentalise this in their minds as something which has nothing really to do with the United Kingdom. Nor is it a colony: British opinion will reject totally a colonial situation. It is just something very peculiar; the fact that one can on occasion get blown up outside Harrods by some itinerant IRA bomb peddler is just one of those hazards like being run over or caught by a mugger in an Underground subway. British opinion simply does not think of it as the type of political problem with which Canadian federalism is confronted.

When one does come to what is pulling Britain and Canada apart, arguments that Canada's membership of the Free Trade Area and Britain's of the European Community or the European Monetary Union will make little difference do not carry immediate conviction. One can exaggerate the symmetry between the two sets of organisational relationships, Canada with the FTA or Britain with the EC/EMU complex. The Canadian sense of identity requires a certain assertiveness *vis-à-vis* the United States, if only to combat the universal American attitude that Canadians are just a rather wayward and outmoded kind of American; as though Canada was still populated exclusively by descendants of the defeated loyalists of the war of the American revolution. The British relationship with Europe is rather different.

If Canadians are to continue to think of themselves as Canadians, with a separate history and identity, they will be continuously reminding themselves that they are not Americans, not a new addition to the fifty states south of the 49th parallel, and that there is no question as yet of redesigning the Stars and Stripes. The Free Trade Area is not a union of Canada with America; it is much more a depoliticisation of the economic relationships between economic organisations and activities north and south of the border. In an era when the United States itself is being steadily invaded by British, Japanese, Arab and European capital, the old tendency to see all transnational economic relationships in terms of colonialist or imperialist categories may still exercise a political and persuasive influence. But such a relationship does not, and need not, necessarily obtain in the relations between American and Canadian business.

Where British relationships with the European Community are concerned, Britain labours under a rather different set of compulsions than those which operate in Canada's relations with the United States. These originate before 1980 and Mrs Thatcher's ill judged adoption of the role of President de Gaulle. But there is no doubt that she has greatly increased the burden British negotiators with her European partners will have to face for the rest of the century. Put crudely, British representatives, at all levels, official and unofficial alike, have to spend much more energy proving their European *bona fides*, showing that we are, despite appearances much 'more European than Thou'. This particular pressure has been enormously complicated by the Labour party's sudden discovery that 'Europe is on their side', so-to-speak, in the person of M. Delors. Even the European Monetary Union, once denounced in Labour circles as the ultimate capitalist conspiracy, on a par with the Trilateral

Commission, the Bildenberg meetings or the Club of Rome, is now spoken of with respect. And M. Delors, whose demands for worker participation in the running of capitalist enterprises used to be anathema in good Trades Union circles, now finds himself the idol of Labour Party Conferences. This curious reversal of roles has only increased the tension in British politics. In the normal intergovernmental bargaining processes in Brussels, British Conservatives have to make gestures they would often rather not give way on, just to prove that they no longer instinctively think of the lines of the famous 1923 British press headline 'Fog in the Channel. Continent isolated'. The Conservative party group among members of the European Parliament is on many issues virtually a separate party from its parent organisation in London. And our political partners in Europe are more and more convinced that they have only to wait for the next general election and need make no concessions to Britain in the meantime. After the 1992 General Election, so they believe in Brussels, there will be no more danger to European statesmen of their being handbagged over the pate de foie gras at an Elysee dinner.

Actually, below the level of high politics, Britain's links with the European Communities have got steadily stronger not weaker. This is especially true of agriculture. British agriculture is now as much dependent on CAP subsidies as is German, French or Italian agriculture, let alone Spanish, Portuguese or Greek. The effects on the British countryside and on British agriculture have been to make agriculture, or rather agribusiness, a much stronger pressure group, one which now virtually dominates the Ministry of Agriculture, Fisheries and Food. It is making a potential dust-bowl of England's 'green and pleasant land', which is another matter, since the farmers are now locked in a head-on collision with the upper class and of the ecological movement, the NIMBY (not-in-my-back-yard) brigade, who want the countryside to stay (unspoilt) as they imagined it, complete with hedgerows, skylarks, trees, copses, duck ponds and, most of all, rivers unpolluted by agricultural run-off, and air free of chemical sprays and the smoke of burning stubble. It is a struggle still unsettled. Its outcome will tell us a good deal about the changing balance of power in British society.

But CAP is here to stay. The gloomy picture of frustration painted by the Canadian High Commissioner, where Canadian agricultural imports into Britain are concerned, is something Britain and Canada will have to adjust to; though I have to say that as yet I have noticed no diminution in the supply of Canadian, or for that matter, American, apples on the shelves of my local supermarket.

Mr. Davidson described the European Community as a three dimensional group. With this we can agree. In many ways it is more than three-dimensional. It is certainly much more solid than the other groups to which Britain and Canada belong, particularly the Commonwealth. The effects of a common EC position on foreign policy, into the achievement of which in the Middle East, for example, or in the U.N. Law of the Sea Conference a great deal of effort is being put, all of this is removing from politics areas where Britain and Canada once had common ground, and common interests and a common relationship.

There remain areas where both countries are involved in multi-lateral relationships: environment, terrorism, drugs, crime. Anglo-Canadian relations in these areas have had a rather mixed track record. At the U.N. Law of the Sea Conference, that

eight year marathon that ran from 1974 to 1982, and the development of which is still being regularly discussed at the oddly-named Preparatory Commission, it was unfortunate that the Canadian position and that of Britain were so widely at variance with one another. When the final efforts were made by that little group of countries who called themselves the Friends of the Convention, to save the agreement from the effects of President Reagan's change of mind, Canada was not only not a member of the group, though Australia and New Zealand were, but she had so far abandoned the concept of acting as the hyphen in the Anglo-American relationship as to be at odds with both Britain and America. Australia and New Zealand are still playing the same role of intermediary between signatories and non-signatories. Canada, having secured her nickel production from competition from ocean floor resources, is, so I am told, largely inactive. So much for the Commonwealth relationship.

Our discussion of the Commonwealth in part played gently over the one area in which Commonwealth cooperation does seem to be working: that is in the development of the marine resources of the South Pacific, an area in which neither Canada nor Britain are particularly interested. I did suggest that the Commonwealth has been used as a code word to cover the bilateral relationships between Britain and Canada, and despite its allegedly multilateral role, the Commonwealth has served simply as a 'multilateral' stage on which the Anglo-Canadian relationship has been played out. Indeed, in one area where one might expect Anglo-Canadian cooperation to work within a wider Commonwealth relationship, in the West Indies, competition rather than cooperation has been, and remains, the most common element in the relationship.

We were, however, agreed that the Commonwealth is still a more important vehicle for Canada rather than Britain. Geoffrey Smith's warning that opinion in Britain is swinging seriously against the Commonwealth *per se*, as a result of the experience of Britain constantly finding herself in the pillory at conference after conference, is one that should be seriously taken to heart in Canada. Feeling in Britain is that there is an awful lot of cant talked about the Commonwealth. Only a handful of its member states can be described as genuinely democratic; only a handful of the dignitaries who pontificate at the U.N. or at Commonwealth meetings can be said to be representatives, in the British or Canadian political sense of the word, of those over whom they rule or to be members of or spokesmen for governments manifestly resting on the unforced consent of those they govern. Rhetoric stressing the Commonwealth ties between Canada and Britain risk adding to the vulnerability of the relationship. They do not much reinforce it, save for that dwindling band of Britons who distinguish between the old White Commonwealth and its later additions, or see it entirely in terms of those countries which play cricket (which, as once with the sterling area, excluded Canada).

Such considerations are reinforced by the warnings that Professor Meisel gave of the demographic and multicultural drift in the two countries, the weakening hold of the Crown on the imaginations of the new Canadians, the weakening pull of London, the 'Americanization' of Canada and the decline of public sector activities in each country.

When the conference discussions turned to the Third World, and to British and Canadian relationships with it, there was a striking disparity between the detailed knowledge displayed by conference members and the almost embarrassingly obsolescent terminology in which so much of it was voiced. The 'North-South

relationship' was frequently introduced into our discussions, as though the 'North' was entirely white skinned, and that, following the South African example, conference members had agreed to overlook the colour of Japanese skins and to declare them honorary Aryans. The difference between the Third, Fourth and Fifth world was hardly mentioned. The New Industrial Powers did, it is true, make a brief appearance. The NFPs, the new Financial Powers, Bahrain, Qatar, Kuwait (which alone provides one quarter of the money invested every day of the year in British equities), Brunei, Saudi Arabia, did not appear at all.

We talked about the environment, perhaps the most serious world problem, we talked about human rights. We did not really deal with mass migration which is possibly the most serious and greatest problem facing the states of the world today, one which involves both issues. We are already facing the problems of mass migration out of areas like South Vietnam, for which the concept of 'economic refugees' has been invented to justify the forced repatriation of those, the vast majority, who cannot easily be absorbed by the countries in which they seek refuge. In the nineteenth century the international economy coped with massive migrations to America, Canada, Latin America, because such migrations were in some sense intra-cultural. Only when oriental migration threatened the west coasts of Canada and America, and the empty spaces of Australia, did the resistance begin; and the fact that Canada handled the issue with tact and diplomacy, still does not hide the fact that mass Japanese emigration into British Columbia was unwelcome then and would not be welcome today. Today the challenge to the sovereignty of the state, to that from which refugees come, as much as that to which they wish to go, is paramount. The refugee camps, sink holes for unwanted humanity, multiply.

The conference did not touch at all on the problems of Africa, the spread of AIDS throughout the continent, the degree to which civil strife and famine has become endemic in central Africa, the relentless process of desertification which has now dropped from the headlines, the sort of issues which are of importance to all of us, in the most advanced states. Our publics tend to see these issues entirely via the 'Oxfam theory of education'. This evokes the alleged guilt which the citizens of the former colonial power are supposed to feel, to revive the image of benevolent imperialism, of 'doing good to the blacks', at a nice long distance away, picturesque, starving, underclothed, and arousing a great deal of genuine humanitarian feeling. Mixed in with this is, however, a rather less praiseworthy sense of benevolence, of doing something for the poor. The tendency of our two peoples to manifest intermittent attacks of charitableness, one which the media ruthlessly exploit, hides from them the fact that there are very genuine, deep-seated and long-running problems of civil war and inter-communitarian conflict in Africa and South East Asia; that the OECD states are largely ignoring these for fear of accusations of neo-colonialist interference with the sovereignty of the states in which these tragedies are occurring; and that on occasion they are putting themselves in the position of actually supporting regimes, like Ethiopia, which carry much of the responsibility for the famines which are occurring. Britain even supported Pol Pot; Canada has a rather better record in this respect.

Nor did the conference deal with the problem of security in North-South relations: nor with that unhappy period in which the secretariats of organisations such as UNESCO, or the UNCTAD Shipping Committee turned themselves into leaders in the

North/South conflict and made their organisations into battle-grounds. It did not discuss the security threat to small states, especially small island states, though Canadian interest in the West Indies might be expected to deprecate the manner in which America seems to have extended the Roosevelt Corollary to the Monroe Doctrine to cover states of the Commonwealth. Nor did the conference deal with the tendency of new nationalisms to spill over into expansionism: there was in fact a great deal to do with the realities of the Third World, in which Britain and Canada have common interests, which was not discussed, being overlaid entirely by the tendency to see everything in terms of aid and development. The fact that this discussion ended with the usual emergence of the JAS (the Japanese Admiration Society) was particularly unfortunate. The one thing one can say with greatest confidence is that neither Britain nor Canada is Japanese; neither of our peoples think, perform, are organised on similar lines to or share the social goals of Japanese society, and that any but the simplest social mechanisms that function in Japan almost certainly would not survive transplantation into a Canadian or British environment.

Much more immediate and much more revolutionary in implication than the gradual disintegration of the North-South configuration into a series of potentially bloody but, let us hope, pre-nuclear warfare confrontations between rivals for regional hegemony, are the changes in Eastern Europe and the apparent break-up of Stalin's empire. The implications for our two countries are so far-reaching that it may be years before they are properly assessed and their consequences have worked their way through the system. The most immediate problem, apart from simply adjusting to each week's headlines from so many different centres of nationalist reassertion of separate political identities, is the effect that the emasculation, if not disappearance, of the Warsaw pact, and the coming together of the two Germanies will have on security in Europe, and on the North Atlantic Alliance of which both Britain and Canada are founder members.

At a time when there is so much pressure for a return of all NATO's contingents to their own countries, and so much talk of a 'peace dividend', it is worth restating how and why NATO came into being as opposed to the various national creation myths, and asking how much has changed. To Britain, and the original initiative came from Ernest Bevin, the Labour foreign secretary, NATO with its American and Canadian membership represented a kind of intensified Canningism, calling 'the New World into existence to redress the balance of the Old', but bringing the New World back to the Old to do so. Soviet military-industrial strength, the Soviet presence in central Europe, the apparent ease with which Stalinist actions seemed to match those of Hitler in the 1930s, the Soviet campaign against the Marshall Plan, Soviet pressure on Finland and Norway, the fear that Stalin might again ally himself with a revanchist German nationalism, and the universalist appeal and organisation of the Communist movement convinced Bevin that only the military and ideological tying of western Europe into an Atlantic community of democratic states could withstand it. For the Americans, or rather for that part of American government and opinion which remembered that two world wars had begun in Europe, NATO was seen as a way of 'getting Europe off our backs and on its feet'. NATO was a substitute for, not an occasion for, a new American military commitment to Europe. There were originally no American military commitments to the defence of Europe, a pointer to the political rather than military

significance of NATO to its American progenitors. American troop commitments to Europe came only after the outbreak of the Korean war, and then only as a douceur to force western Europe to grasp the nettle of West German rearmament. American senators were told by General Eisenhower late in 1951 that US troops would only be in Europe for two years or so.

It was only after the reform of NATO in 1952, the failure of the first summit conference in 1955 and the Suez disaster that President Eisenhower accepted that U.S. troops were in Europe to stay. By the end of the 1950s it was clear that, as I myself heard General Vandenberg the retiring Supreme Allied Commander Europe, claim, the NATO umbrella had made the German and European economic miracle possible. The price of the miracle was a divided Germany, the western federal democratic state being firmly integrated into Western Europe, economically through the organisms of the Coal and Steel Community, the Common Market and Euratom, militarily through NATO and the revived Western European Union of the 1954 Paris agreements.

NATO provided the answer to three possible threats to European security: that of Soviet military strength, that of Communism through despair, and that of a revived German authoritarian revanchism. It operated of necessity at three levels, the political-psychological, the political-military and the purely military. Without the appearance of plausible military strength provided at the military level, the politicians might not have retained their resolution to withstand pressures towards neutralism, accommodation, Finlandisation. Without the actions and leadership provided by the major political leaders in NATO's European governments, the peoples of western Europe would not have felt secure enough to contemplate major savings and investment projects with long-term pay-offs. Security and deterrence, in the end, are states of mind; and despite the severest psychological offensives, especially against a security system built on Mutual Assured Destruction, the majority of Europeans, most of the time, ignored the enormous imbalance of conventional forces in central Europe, suffering only the occasional outburst of anxiety when allies or opponents, though it was more often their allies who were responsible, seemed to be crowding too closely to the edges of the 'unthinkable'.

The withdrawal of Soviet forces from eastern Germany, Poland, Hungary and Bulgaria does however remove the prospect, more dreaded by politicians and military than by their publics, of a conventional Soviet drive into western Europe, or of a conflict arising out of a frontier clash, or over Berlin. In its place older long-suppressed Balkan animosities, of Rumanian for Magyar, Bulgar for Turk, Serb for Croat and Albanian, are threatening to re-emerge, as are the old fears, especially those of Pole for German.

It is here once again that outmoded concepts, traditional vocabularies, nineteenth century language betray us, by providing a ready-made set of images and undertones to form our thinking and underpin our anxieties. A moment's thought would show that at the end of the twentieth century, aggressive war for territory is not a realistic option for any state in Europe, if whatever passes for victory only results in the acquisition of land which will be uninhabitable through radio-activity for centuries. Polish fears of a second 1939, of German panzers driving for Danzig and the return of Silesia and Eastern Prussia, are thus only imagined; territorial war, even between Rumania and Hungary over Transylvania, can only take two forms, an immediate coup d'état, or a

long-drawn out civil war of the Ulster or intifada kind; the one over too fast for any buttons to be pressed without mass deaths among those for whose defence the button is available, the other so confused by the intermingling of populations that no targets for mass destruction are available.

But security and deterrence are matters of psychology and perception. As long as east Europeans harbour these fears their sense of security will be at risk. Such fears are not easily quietened, not after two world wars and two occupations. They cannot be argued with. There are no tranquillisers for collective memories. They remain a potent political force. And in a plural, multi-party political system, there will be always at the very least a strong temptation to resurrect them for party-political purposes in the domestic political struggle. Any system of European security that allows for a coming together of the two Germanies will have to take account of these spectres of the past. Spectres of the past can only be countered by evocations of rituals; and the most effective counter to such fears we have yet devised is the continued presence of troops from the United States and Canada in mid-Europe. These need not be many. General Foch, as he then was, was asked before 1914 how many British soldiers he wanted to see on France's borders with Germany. 'One', he is said to have replied. 'I will see he dies a hero's death in the opening attack. One will be enough'. A small Canadian or American contingent will be warning enough to any potential aggressor.

These memories of the political antagonisms of the first half of this century conceal and overlay the real problems in relations between eastern and western Europe, the economic imbalance which has existed ever since the Treaty of Versailles destroyed the three eastern Empires and created the present managerial nightmare of small and, from an economic viewpoint, irrationally fragmented and divided national economies. The problem existed in the 1920s and persisted through the 1930s. Hitler's solution was to politicise what in economic terms was their 'colonial' relationship with Germany and western Europe into a German monopoly. Stalin continued the process, adding to it his own doctrinaire obsession with heavy industry, leaving behind what we have today, the same problem of dependency worsened by each state's acquisition of an individual superstructure of high cost museum machinery and truly massive industrial pollution. Forty years of Stalinist industrialisation have created an ecological equivalent of Hiroshima. Their 'dark satanic mills' have envenomed the Danube, and poisoned the clean winds which once came off the Carpathians. Yet on this obsolete, poisonous conglomeration of heavy industry, whose products are unsaleable at any price and 'unsafe at any speed' depends the employment of a medley of populations, determined to be free.

Such a problem requires a major international and transnational effort both at an economic and a political level. Talk of a new Marshall plan only makes sense if it is remembered that one of the basic conditions of Secretary of State George C. Marshall's offer on 4 June, 1947 of aid to Europe was an end to bilateral aid and the presentation of a Europe-wide investment plan, and that much of OEEC aid went into the modernisation of the infrastructure, the electrification, modernisation and rebuilding of western Europe's transport system. A Danube basin scheme which would provide a positive incentive to Czechs and Slovaks, Hungarians, Yugoslavs and Rumanians to cooperate, might be the basis of a new Marshall plan. The mechanism would be OECD. Here is a role for Canada to play.

In security terms, a similar multinational initiative is needed to secure a move at a controlled rate towards a different security balance at a minimal level. There is no security in an avalanche. Too rapid a rate of change could well get out of control. Discussions and arrangements for a new security arrangement in Europe have to be translated from the present macabre concern with megadeaths, or conventional Armageddons of clashing tank-armies, towards a more symbolic relationship. American and Canadian membership of such an arrangement, as with their membership of NATO, will provide an eventual external guarantee. And such an arrangement would in turn help, for such help is needed, towards a reorientation of East European economies and the kind of transnational effort in the elimination of the new waste lands required. Such an effort, given the right kind of imagination and inspiration could also be of genuine economic advantage to those who led it.

By contrast, old fashioned category-thinking may result in the opportunities being misread. Marshall's plan had no precedents. Much of present discussion, indeed the ignorant confusion drawn by so many commentators between massive bilateral aid and the Marshall initiative, remind us only too clearly that it is not only generals who stand accused of always planning to win old wars.

Ideally the present situation is just the kind in which an Anglo-Canadian initiative within OECD and the European Community would seem to be called for. It is clear that Brussels is too obsessed or caught up at the moment with the question of 1992, one in which for their own rather different reasons both Paris and Bonn think they have a common interest in moving towards a more federal relationship for the European Community; and one with which British obsessions with national sovereignty, an obsession which is curiously unpragmatic and a priorist in its failure to consider present realities, are once again in conflict. In terms of the needs of central and eastern Europe, these issues are of an arcane and metaphysical nature, as Mrs. Thatcher has frequently pointed out. But her failure to make any more than a debating point out of the issue, her own distrust of anything which smacks of planning, and her dislike of multilateral initiatives has equally prevented Britain from making any significant proposals. To talk of 'markets' an economic concept, where the political circumscriptions of one so-called economy from another are still as real as they are in Europe, is only to make confusion more confounded.

In the meantime, one out of each pair of eyes is fixed on Moscow and on the question of Mr. Gorbachev's durability and survivability, and the degree to which the need to survive may divert him back to the bad old days. These are important and essential issues for the Soviet Union. Given the size, the resources in arms and manpower of the Soviet Union, they are important for Europe too. But to wait for them to be resolved is to turn international politics into a spectator sport even for those who should be participating in it. It is only historians who can, if indeed they are not professionally obliged to, afford such a stance. Detachment is not an option for our two nations and those who lead them.